The Impact of Zambia's 1983-1993 Structural Adjustment Programme on Business Strategy

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PhD Thesis

Department of Business Studies

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DECLARATION

I hereby declare that this Thesis has been composed entirely by myself and that all the work carried out herein is also my own except where specifically stated.

[NKOMBO MUUKA]

ACKNOWLEDGEMENTS

This Doctoral Thesis took shape in the unique, lively intellectual environment of the Management School at the University of Edinburgh. It is in the Business Studies Department that I met with, and was supervised by, one of Britain's foremost academics: *Dr John Sebastian Henley*. It is to him that, appropriately, I first pay my sincere and enduring tribute. He was everything that a Doctoral student hopes to find in a supervisor. And much, much more. The Commonwealth Commission, London, in October 1990 awarded me the Commonwealth Doctoral Scholarship that made all this financially possible. I shall forever be in their debt.

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My concluding disclaimer, of course, is that all those associated in any way with this Thesis should share equally in its successes, while I alone shoulder the responsibility for any unintentional failures.

To all of you let me say, simply, Mabondo alacaala kaabwa. Catakamana, baTonga bakati Cilayoosya!

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[EDINBURGH, SCOTLAND]
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ABSTRACT

As Zambia entered the 1980s with its economy continuing to weaken further at every turn, it eventually dawned on policy makers and implementers that the buoyant copper years of the previous decade and half may never come back. Although the country had stand-by-agreements (SBAs) with the IMF from as far back as 1973, there was still hope in the decade that followed that the copper-led problems were transitory. By 1983 these hopes could no longer be sustained, as the country's growth engine— copper— assumed impossible-to-ignore sputtering levels. In-came the structural adjustment programme (SAP), whose inevitability and necessity this study completely identifies with.

Among the major objectives of Zambia's SAP have been and continue to be: diversification away from copper by promoting non-copper, non-traditional exports; reduction or elimination of balance of payments (BOP) deficits; switching production from non-tradables to tradables and, ultimately, resumption of higher rates of economic performance. Reduction in the level of inflation, reduction in government budget deficits, and reduction in the level of unemployment have also occupied the front rank in the country's recovery efforts.

This study— from a Business Policy background by a management scholar— has looked at the impact of Zambia's 1983-93 SAP on manufacturing sector business strategy. It uses, as its main contribution, results of an empirical study of the impact of SAP on 43 manufacturing firms in Zambia.

The study is centred around the following major objectives: (1) To offer a general macro-level assessment of the impact and outcome of the 1983-93 structural adjustment programme; (2) To assess the impact of the programme at the micro (manufacturing sector) level. As the basis for its main contribution the study asks the following questions at the micro-level: (a) To what extent are non-traditional exports (NTEs) ready to replace copper— whose useful life is widely forecast to be no more than the year 2010— in export earnings? (b) Has the SAP reduced the manufacturing sector's raw material import dependence from the average of around 64 percent in 1981? (c) Has the SAP induced local raw material sourcing and increased inter-sectoral linkages? (d) What has been the manufacturing sector's performance under the SAP with regard to capacity utilisation rates? (e) What has been the impact of such measures as devaluations of the Kwacha and trade liberalisation on the sector?

At the macro-level, the fundamental causes of Zambia's structural crisis are found to be quite diverse and complex. Some causes are rooted in history, some in nature, some in the external environment, and yet others in wrong domestic policies. Structural rigidities in the economy are found to be largely un-altered despite a 10-year attempt at adjustment. The economy is also plagued by what we have called here the **4-D Syndrome**— that is Debt, Drought, Dependence on primary exports and imported raw materials, and Disease.

The structural adjustment programme has failed so far to improve the Zambian economy, let alone halt its downward slide: it has failed the ultimate test of improving (or slowing down the decline in) the living standards of the poor majority. Having said that, the author is certainly not unaware of the counterfactually sensible alternative argument that had Zambia not embarked on Bank-Fund SAPs, things could have been a lot worse. It is also not possible to dis-entangle the effects of SAP measures from other factors which have had an equally important impact on economic performance, such as the effect of drought in recent years.

With several national and international experts predicting the exhaustion of useful copper ore by the year 2010, the study calculates that Zambia's non-traditional exports need to grow by an unprecedented 27 percent or more annually in order to replace copper in export earnings. The study concludes that it is difficult to be optimistic about achieving this target, because of the following findings and reasons:

(a) Raw material import dependence in the manufacturing sector is found to be still high— at 60 percent in 1991. What is more, the sector does not make enough of its own foreign exchange to import raw materials. It still depends on copper-generated foreign exchange.

(b) Because of the situation in (a), capacity utilisation (34 percent in 1991) has been vulnerable to fluctuations in foreign exchange availability. This has led to a vicious circle: where persistent foreign exchange shortages limit companys' capacity to import, thereby leading to low capacity utilisation rates which in turn stifle exports.

(c) Visible non-traditional exports (at $100.4 million in 1991) are dominated by 23 firms, the largest of which— ZAMEFA— is technically a traditional exporter because it uses local copper and has exported for a sufficiently long time. It accounts for close to one third of all such exports.

(d) The 3CI+WIF syndrome: the study summarises the other problems affecting manufacturing performance into what we have named the **3CI+WIF Syndrome**, which stands for: Consumer demand is sluggish due to deterioration in local purchasing power, there has been a Credit squeeze, Capacity under-utilisation; Interest rates are high (70 percent in 1992, thereby limiting the ability of most firms to borrow); Working capital difficulties; Inflationary pressures (225 percent inflation in 1992); and Foreign exchange shortages.

The study concludes with a number of recommendations to the Zambian government, the donor community, the manufacturing sector, and 3 of the 4 case-study companies presented and analysed in chapter 8.

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ABBREVIATIONS, ACRONYMS AND BRIEF DEFINITIONS

Bank	Refers to the World Bank.
BDC	Bureaux De Change, first opened in Zambia on 15 October 1992 to sell and buy forex. The rates on the opening day were: buying : K598 and K350 to £1 and $1 respectively; selling : K666 and K385 respectively— both indicative of severe competition to the parallel/black market. BDCs to be funded not by BOZ, but from ERS, private sources, tourists, and the general public without questions being asked.
BOP	Balance of Payments.
BOZ	Bank of Zambia.
CBU	Copperbelt University.
CSO	Central Statistics Office, Lusaka.
EBZ	Export Board of Zambia: in 1985 GRZ passed the Export Development Act number 25 whose primary objective was to diversify the economy away from its almost total dependence on copper and other base metal earnings. The Act further established EBZ, aimed at developing and promoting the growth of NTEs— both products (visibles) and services (invisibles). EBZ carries out a survey of non-traditional exporters once a year, and 5 such surveys (1987 to 1991) have been carried out as of December 1992.
ECA	Economic Commission for Africa.
EC	European Economic Community
FEMAC	Foreign Exchange Management Committee.
FINDP	First National Development Plan.
FINNIDA	Finnish International Development Agency.
FOB	Free-On-Board.
FONDP	Fourth National Development Plan.
FOREX	Foreign Exchange.
Fund	Refers to the International Monetary Fund.
GDP	Gross Domestic Product.
GNP	Gross National Product.
GRZ	Government of the Republic of Zambia.
GTZ	Gesellschaft fur Technische Zusammenarbeit.
IDS	Institute of Development Studies, University of Sussex.
IFAA	Institute for African Alternatives.
IFI	International Financial Institutions, principally the Bank, Fund.
ILO	International Labour Office.
IMF	International Monetary Fund.
INDECO	Industrial Development Corporation, formed in 1964.
INDP	Interim National Development Plan.
ISI	Import-Substitution-Industrialisation.
ISIC	International Standard Industrial Classification.
Kwacha	Zambia's currency, denoted as K.
LDCs	Less Developed Countries, synonymous with third world.
LME	London Metal Exchange.
MMD	Movement for Multi-Party Democracy, the new ruling party in Zambia that replaced KK's 27-year old UNIP rule.
MNCs	Multinational Corporations.
MVA	Manufacturing Value-Added.
NCDP	National Commission for Development Planning.
NDP	National Development Plan.
NFZ	News from Zambia.
NORAD	Norwegian Agency for International Development.
NTEs	Non-Traditional Exports.
ODI	Overseas Development Institute, London.
PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment.
PAPs	Personal Adjustment Programmes, a new concept used here to describe ministers in LDCs who, having attained power through SAP-inspired democratic political reforms, set about making good their huge election financial expenditures by using their new influence to help their own firms to recover ahead of national recovery.
PFP	Policy Framework Paper, the World Bank (1992: p13) defines it as a three-year comprehensive report prepared by national authorities (of a programme country) with the assistance of Bank and Fund staff. It identifies the sources of a country's problems, describes the proposed remedies, and provides estimates of the associated financing requirements and the role of the major aid agencies.
Pound	British currency, denoted as £.

PTA Preferential Trade Area [for East and Southern Africa]: This 1981 economic grouping, aimed inter alia at reducing tariff and non-tariff barriers to trade, comprises Botswana, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Uganda, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Zambia and Zimbabwe; with South Africa expected to join soon.

SADCC Southern African Development Coordination Conference: A sub-set of the PTA and enjoying over-lapping functions, this 1980 economic block grouped together [against dependence on South Africa] the countries of Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia, Zimbabwe; and is forerunner to the Southern African Development Community (SADC) formed in Namibia in August 1992, comprising the same nations but with South Africa expected to join later— thereby throwing into question its raison d'etre.

SAP Structural Adjustment Programme, as opposed to Social Action Programme [SOAP].

SIDA Swedish International Development Agency.

SIDO Small Industries Development Organisation.

SNDP Second National Development Plan.

SOEs State-Owned Enterprises, synonymous here with Parastatals.

SPSS-X Statistical Package for the Social Sciences.

SSA Sub-Saharan Africa: Defined as all African nations **excluding** South Africa and the Arab North.

SWOT Strengths, Weaknesses, Opportunities and Threats.

TAZARA Tanzania Zambia Railway.

The 3CI+WIF Syndrome: Consumer demand [sluggish], Credit squeeze, Capacity under-utilisation; Interest rates [high]; Working capital woes; Inflationary trends; and Foreign exchange shortages. The syndrome is named here, for the first time, to refer to the major problems afflicting Zambia's micro/manufacturing sector.

The 4Ds Syndrome: Debt, Drought, Disease, and (over)Dependence on primary exports and imported raw materials. The syndrome is named here, for the first time, to refer to the major problems afflicting the Zambian economy.

TNDP Third National Development Plan.

UN United Nations.

UNCTC United Nations Centre on Transnational Corporations.

UNDP United Nations Development Programme.

UNICEF United Nations Children's Fund.

UNIDO United Nations Industrial Development Organisation.

UNIP United National Independence Party, defeated by the MMD during the October 1991 Zambian Presidential and General elections.

UNZA University of Zambia.

ZACCI Zambia Confederation of Industries and Chambers of Commerce.

ZAFFICO Zambia Forest and Forest Industries Corporation.

ZCCM Zambia Consolidated Copper Mines.

ZCTU Zambia Congress of Trade Unions.

ZESCO Zambia Electricity Supply Corporation.

ZIMCO Zambia Industrial and Mining Corporation, the holding company for all of Zambia's SOEs, formed in 1970.

$ Refers, unless otherwise stated, to the American Dollar.

DFI Development Finance Institutions: established in order to provide long-term finance for development projects; aimed at filling important gaps in financial systems where commercial banks are reluctant to lend other than on short-term scales and where as yet other capital market arrangements may be rudimentary (Henley and Maynard 1991: p215).

DEG German Finanzierungsgesellschaft fur Beteiligungen in Entwicklungslanden.

FSRs Former Soviet Republics.

IDAT Industrial Development Advisory Team.

QTR Quarter.

SSML Swarp Spinning Mills Limited.

CIF Cost, Insurance and Freight.

CHAPTER 1: INTRODUCTION

1.0 Background

For the great majority of African nations, the advent of independence was greeted by a jubilation tinged with very high political and economic hopes. For many, the early political gains were indeed accompanied by higher incomes and improved welfare as meaningful improvements were made to their basic infrastructure and social services. It was not long after these early political and economic gains, however, that their economies began a gradual downward slide until this day when, especially for Sub-Saharan Africa (SSA), the situation has assumed chronic proportions. "What exactly went wrong?", these countries and those concerned about them now ask. Useful insights into this question are gained by a careful examination of one such country : Zambia.

Born with a Copper-Spoon in her mouth at independence from Britain on 24 October 1964— which copper spoon would later turn into a copper curse— Zambia's economy made tremendous strides during the first decade. With gross domestic product (GDP) per capita clearly among the highest in Africa and a copper mining industry large by any standards, the forecast for this landlocked nation was for rapid growth and development.

Copper was clearly synonymous with the entire Zambian economy, and with its price and profitability increasing during the early years, large contributions were made to government revenue and foreign exchange earnings. Blessed with such promise, the need to critically debate the consequences of this monocultural position— being dependent on copper for between 93-95 percent of its export earnings and about 40 to 45 percent of GDP (Muzandu 1985, Simson 1985, Colclough 1988)— did not arise. Until 1973.

With no known reserves to call its own and therefore dependent entirely on foreign oil, the world oil crisis of 1973 underscored the vulnerability

of Zambia's congenital rigidity, a situation that was put beyond doubt by the world copper price shock of 1974. The oil crisis led to a mounting oil import bill, while the fall in copper prices sharply cut down foreign exchange earnings. Seshamani (1988: p8) indicates, for example, that the share of the oil bill in the country's total import bill rose from 5 percent in 1973 to 25 percent in 1983.

As the basis for the economy began to slide, and believing that copper markets would quickly pick up, the country resorted to borrowing and began to accumulate foreign debt. It turned to the International Monetary Fund (IMF—hereafter called the Fund) in 1973/74 in what was to become the first ever Stabilisation package in Zambia. This "Stand-by Agreement (SBA)" - to use IMF phraseology - was a loan aimed primarily at cushioning the impact of the fall in copper prices. Contrary to expectations, copper prices did not recover sufficiently and, coupled with falling volumes of copper exports, the country's terms of trade began to worsen. Oblivious to the more chronic than temporary nature of the problem, the Zambian government attempted a series of other stabilisation packages until 1983, when the first serious attempt was made to address the economy's structural rigidity through the first ever Structural Adjustment Programme (SAP), between 1983-85. This was jointly supported by the two Bretton Woods institutions, the IMF and the World Bank (hereafter called the Bank). Structural Adjustment Programmes (SAPs) have characterised the country's economic scene since then, with the latest one covering the period 1992-94[1].

The main object of these SAPs, in Zambia's case, has been and continues to be **reduction of dependence on the country's sputtering growth-engine— copper—** by diversifying into other principal sectors, notably Agriculture, Manufacturing, Energy and Tourism; with a view to promoting positive growth in the economy. The basic strategy, in Zambia's case, has been the promotion of non-traditional, non-copper exports. Zambia has been chosen because it is one of the very first African nations to implement Bank-Fund-type SAPs. It also typifies an adjusting mono-product developing economy that has enjoyed a mixture of maximum political stability, minimum economic growth, and not-so-cordial

relations with the International Monetary Fund. Additionally, it exemplifies the inability of most Sub-Saharan nations to put in place effective, "home-grown" recovery programmes without international aid.

1.1 **Problem Definition**

This study asks and addresses two equally important questions, namely :

(1) What is the nature of Zambia's 1983—1993 Structural Adjustment Programme?, and

(2) What has been the impact of the 1983—1993 Structural Adjustment programme on Manufacturing Business Strategy? This assessment shall pay particular attention to the period 1983-93, clearly the decade during which structural adjustment has received the greatest and most far-reaching attention todate.

1.1.1 **Relevant concept definitions**

It is perhaps prudent at this early point to clarify the crucial elements of the above problem definition.

1.1.1.1 **Stabilisation**

Desperate for help, African countries approached the IMF in the mid 1970s and early 1980s for short-term balance of payments support. The rationale, according to Gladson (1988: p20) was to tide countries over during temporary economic disruptions. However given the structural rigidities of most of these economies, it proved a more difficult task than earlier envisaged.

By definition, IMF stabilisation programmes had a short-term focus with tough adjustment conditions - the so-called conditionalities that depict the fact that the IMF has traditionally exacted strict conditions from countries wishing to borrow from it. The stabilisation packages therefore proved to be poorly suited to these economies whose major deficiencies, as the Zambian case illustrates, were long-term and structural in nature.

By the early 1980s there was a growing recognition that Africa's problems were not transitory, and that short term solutions would not work. Rather, both resources and policies had to take on a longer time-frame. Accordingly the second of the Bretton Woods institutions, the World Bank, began playing a more activist role in "Structural Adjustment."

1.1.1.2 Structural adjustment

According to Helleiner (1992: p490, "Structural Adjustment" is a term that carries many meanings. In the context of Sub-Saharan Africa in the 1980s the term has come to refer to the collection of "supply-side" policy reforms that is advocated by the World Bank —changes in relative prices and institutions designed to make the economy more efficient, more flexible, and better able to use resources and thereby to engineer sustainable long-term growth. The World Bank (1988: p11) sees structural adjustment as:

"Reforms of policies and institutions— microeconomic (such as taxes), macroeconomic (such as fiscal imbalance), and institutional (public sector inefficiencies). These changes improve resource allocation, and increase resilience to future shocks. The economic distortions that require adjustment interact. For example, an overvalued exchange rate is evidence of macroeconomic distortions, yet it also contributes to microeconomic distortions because traded-goods producers face a relative price dis-incentive. Similarly, public enterprise pricing often leads to microeconomic distortions when prices do not reflect costs, to institutional distortions in that managers have inadequate incentives to be efficient, and to macroeconomic distortions as deficits become large".

The above Bank definition— which in the view of Stevens and Killick (1991) comes perilously close to saying that SAPs consist of those policy changes of which the donor community approves— moves on from the simple strengthening of a state's BOP to reforms of policies and institutions, thereby reflecting the supply-side orientation of the Bank as opposed to the demand-side emphasis of the Fund.

With regard to Africa, Callaghy (1988: p13) sees Structural Adjustment as:

"...efforts to reconstruct African political economies in significant ways. It is based on two beliefs: that without adjustments new resources would be drained away and that African leaders will not make appropriate changes unless they are pressured. Such adjustment, planned or unplanned, imposed or voluntary, is a dramatic, difficult, and unsettling phenomenon. With foreign exchange scarce, levels of aid declining and access to private capital markets decreasing, the dire need for adjustment resources has led to increasing reliance on the IMF".

The definition by Callaghy is significant in two respects. First, it conforms to the conditionality advocacy, that "...African leaders will not make appropriate changes unless they are pressured". Secondly, that structural adjustment is not only multifaceted, it is also difficult to undertake. This shall become evident when we discuss the Zambian case in later chapters.

Ritva (1990: p11), on the other hand, views Structural Adjustment as involving a comprehensive set of economic measures aimed at achieving macro-economic goals— such as an improvement in the balance of payments, a more efficient use of the productive potential, an increase in the long-term rate of economic growth, and low inflation:

"The concept is derived from two economic notions: first, structural means changing the structure of an economy, for instance by permanent changes in price incentives in order to achieve a more efficient allocation of resources. Adjustment refers to attainment of an equilibrium in the external and internal balance. In other words, an economy must be adjusted to internal and external shocks. The underlying view is that only efficiency in resource allocation and economic equilibrium can bring about long-term growth".

Ritva's definition introduces some of the major goals of SAPs, such as improvement in the BOP, lowering of inflation, and more crucially inducing more growth into the economy. The definition also makes the useful point that internal adjustment efforts may be nullified by negative developments in the wider international economy, to which most LDC economies are particularly prone.

Chapelier and Tabatabai (1989: pp18-19), writing for the UNDP, have provided a more elaborate definition, distinguishing structural adjustment from a stabilisation programme— thereby also distinguishing the two orientations of the Bank and Fund. They recognise— as we do— that although the distinction between stabilisation and structural adjustment is conceptually clear, it has become increasingly blurred in practice largely due to the growing coordination between the Bank and Fund. So much so that the term "structural adjustment" is now generally interpreted broadly enough to include stabilisation as well. The two authors have this to say:

"...more narrowly, structural adjustment may refer to the process of adapting to circumstances involving sudden, large and often unexpected socio-economic changes which may be favourable or unfavourable to pre-determined developmental objectives. In current parlance, however, the term is often used more specifically to refer to the particular approach of the Bretton Woods institutions to the resolution of the continuing economic crises affecting many developing countries today. In this approach, structural adjustment may be defined as a set of policy responses to external or internal economic shocks with the objectives of improving a country's balance of payments position in the medium term and promoting the long-term growth of the economy".

The word "structural", according to Chapelier and Tabatabai (ibid) reflects on the one hand the need for major, as compared to marginal, changes in policies in response to major economic shocks and, on the other, the need for changes in the structures of production and distribution. They see a clear operational distinction between stabilisation and structural adjustment: stabilisation emphasises the restoration of a certain balance between resource availability (supply) and absorption (demand). Stabilisation policies of the IMF are generally concerned with the short to medium run (one to five years) and emphasise demand contraction and management. The central targets for operational purposes are typically the external trade balance and the domestic rate of inflation. Structural adjustment, on the other hand, is concerned with a re-organisation of the structures of production and demand, with the aim of achieving positive, steady and sustainable output per capita under balanced supply and demand conditions. The policies are usually associated with Bank programmes, involve the medium to long term (about three to ten years) and put greater emphasis on the supply side of the economy.

While on a business trip to Lusaka in August 1990, this author had occasion to discuss structural adjustment with Dr Earle A S Taylor, the UNIDO country Director for Zambia, Malawi, Zimbabwe and Botswana. The occasion was productively used to coin a Zambian-specific definition of structural adjustment, highlights of which are now presented below.

The Zambian economy, though predominated by the mining industry, revolves around 5 main economic sectors : Mining, Manufacturing, Agriculture, Tourism, and Energy as its main pillars. Restriction to these

5 pillars does not in any way diminish the importance of, inter alia, the Banking, Transport, Health, and Education sectors. Structural adjustment refers to the policies and measures, internationally imposed or nationally conceived (or both) that are aimed at correcting fundamental or structural weaknesses in these pillars to give the economy new direction, and the capacity to sustain the resulting development trust and drive. It therefore implies :

(a) Fundamental changes to these five main economic pillars. The process requires renovation and review of policies and practices and the formulation of measures that will motivate the energies of the productive sectors. The driving measures should include, without being restricted to : taxation policies and incentives for producers, improved management of economic enterprises and the entire economy, liberalisation of trade to the extent possible without self-induced shocks, development and motivation of the human resource, as well as promoting full utilisation and realignment of key industries to their domestic raw material base;

(b) Separation and careful management of the production and consumption sectors, with due cognition accorded to the importance of the former over the latter;

(c) Realignment of the production sectors towards their raw material bases and developing industrial linkages with the social sectors of education, transport, health and others;

(d) Giving capacity to the nation to maximise its export potential, and as such requires export products to be accorded equal or more emphasis over internal consumption/absorption;

(e) A proper balance in the generation and use of foreign exchange. Export diversification (the ultimate strategy for the ultimate objective of economic development) has to take precedence over imports so as to maintain a positive balance of trade and ultimately balance of payments, both of which require careful management;

(f) It also implies that the Zambian government should continuously review its investment programme. Government enterprises that are economically unsound should be divested, while also making a

real effort to transfer certain production assets from the parastatal sector to the private sector to improve real productivity and efficiency.

(g) Finally, the obvious implication from points (a) to (f) above is that because the needed changes are fundamental and diverse, they will take time both to implement and to bear fruit, and that therefore policy designers— especially the Bank and Fund— and implementers (the Zambian government) ought correspondingly to take a long-term view.

The definition above, while demonstrating the diversity of needed changes under structural adjustment, goes a step further to combine and apply the ends-means of SAPs, that is it links SAP objectives to the menu of strategies aimed at achieving them. The definition is also functional, to the extent it attempts to show that both the government and individual sub-sectors of the economy have crucial complimentary roles to play towards the success of reforms. Most significantly, it is the only definition which recognises— as all others should— the cruciality of the time dimension in SAPs, that a long-term orientation is necessary due to the many and fundamental changes needed.

That there is no universally agreed-upon definition of SAP, from the above sample, points to the multifaceted nature of the concept, rather than to differences in understanding and interpretation between the Fund and Bank on the one hand—the chief architects of the programme—and on the other those in both the business community and academia who have ventured to write about the subject.

1.1.1.3 **Business strategy**

This is the third and last concept in the research title deserving early clarification. According to Jauch and Glueck (1988: p11), strategy is:

"A unified, comprehensive, and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organisation".

In the simplest terms, strategy is the means to achieve the ends. In the

above definition, *Unified* means the strategy ties all parts of the enterprise together; *Comprehensive* means that it covers all major aspects of the enterprise; and *Integrated* means that all parts of the plan are compatible with each other and fit together well. Strategy, therefore, refers to management's "game plan" for achieving the chosen objectives, specifying how the organisation will be operated and run, and indicating what actions will be taken to get the organisation in the position it wants to be.

Objectives, for whose achievement strategy or "the game plan" is put in place, refer to the ends which the organisation seeks to achieve through its existence and operations, and therefore the criteria used to determine its effectiveness. A variety of different objectives are pursued by business organisations. Some examples include : achievement and continuity of profits, efficiency (for example low cost), employee satisfaction and development, quality products and/or services, good corporate citizenship & social responsibility, and continued survival, the ultimate objective.

So far as business organisations are concerned, strategy can be discussed at 4 main levels, known as the strategy hierarchy. This makes sense, when you recognise that objectives are normally discussed in terms of these same 4 levels, that is : Corporate, Business/Line of Business, Functional area, and Operating level. Comerford and Callaghan (1985: p14), and Thompson and Strickland (1984: p50) define these levels of strategy as follows:

(a) **Corporate level strategy:** this is top management's game plan for directing and running the organisation as a whole. It cuts across all of the organisation's activities - its different businesses, divisions, product lines, and technologies. Strategy at this level has three overriding concerns: (i) deciding what the scope, mix, and emphasis among all of the company's various activities should be , (ii) providing for coordination among different businesses in the portfolio, and (iii) establishing investment priorities and allocating corporate resources across the company's different activities.

(b) **Business strategy (or Line of Business strategy):** this is the managerial game plan for directing and running a particular business unit. Strategy here tackles the issues of (i) how the firm intends to compete in that specific business, (ii)what the role/thrust of each key functional area will be in building a competitive advantage and thereby contributing to the success of the business in the market place, and (iii)resource allocation within the business unit.

(c) **Functional area support strategy:** this is the game plan for managing the principle subordinate activities within a business. Functional strategies undergird overall business strategy and consist of even more details and specifics about a business's strategic course in production, marketing and distribution, accounting and finance, human resources, research and development, and indeed for every major subpart of the whole business. In discussing the strengths, weaknesses, opportunities and threats (SWOT) of the 6 sub-sectors of the manufacturing sector in chapter 7 and the 4 cases in chapter 8, this functional dimension will assume prominence in determining both the present (strengths and weaknesses) and assessing the future (opportunities and threats) of each sector.

(d) **Operating level strategy:** refers to the even more specific strategy-related action plans and practices of departmental and supervisory level managers - how they intend to manage the day-to-day requirements of functional area support strategies. Thus, strategy at this level deals with the nuts and bolts of how the various facets of each functional area strategy will be carried out.

This Thesis defines business strategy not in the narrower sense in which it situates in the above hierarchy, but rather in the broader sense in which it encompasses the 4 levels/the entire hierarchy above. This clarification— and the strategy hierarchy— are necessary at this early stage to avoid the confusion that sometimes arises with regard to the notion of strategy: in chapters 7 and 8, business strategy will encompass all 4 levels (from corporate to operating level) rather than level (b) alone.

1.1.1.4 **The strategy-follows-objectives dilemma:** by definition, any firm can only come up with a strategy once the general direction the firm wants to take (the end results or objectives) has been decided. So that one would then be tempted to assume, at the micro-level, that the major objectives of the firms to be studied— such as continued survival (or avoidance of closure), profitability, efficiency, and general maximisation of shareholder wealth and stakeholder comfort—are generally identical. It becomes easier, under these circumstances, to evaluate and compare strategy between and across firms.

The major complication, in our study, is that we are dealing with 3 sets of firms whose orientations are different, thereby making it difficult for us to generalise about the identity of objectives. The three types of firms and their major differences are:

(a) Private, Zambian-owned firms: here, efficiency and profitability objectives are paramount, as equity shareholders have a direct line from the firm's profits screen to their own personal interests.

(b) Parastatal firms: the Zambian government (GRZ) has usually muddled the waters with regard to the operations of parastatals. GRZ intervention in Zambian parastatals has come in various forms, starting with the missions[2] and objectives of parastatals all the way to controlling appointments of senior managers and the prices they can charge for products and/or services.

What distinguishes parastatals from the other two types of firms is the predominance of socio-political objectives— such as employment creation— making comparisons of strategy and relative efficiency with other firms complicated. We return to these themes in chapters 7 and 8 as well as the discussion of general pros and cons of privatisation in chapter 6. Suffice to mention, at this stage, that the pervasity of social and political objectives in state-owned enterprises (SOEs) means managerial performance is difficult to evaluate because the social goals are difficult to measure. Once the outcome cannot be measured, then performance evaluation can at best be arbitrary.

(c) **Multinational corporations (MNCs):** these are mostly branch plants or subsidiaries of parent MNCs whose head-offices are located outside Zambia, predominantly in the developed West. Talking about strategy here involves mostly level (d) of our strategy hierarchy (operating-level strategy) because as branches or subsidiaries they do not have much say over corporate strategy which is formulated at head-office. Strategy within an MNC is multilayered, involving global strategy, regional strategy, sub-regional and subsidiary strategies as the case may be. So that strategy at MNC level is different from that of a private, wholly Zambian-owned company or a parastatal for that matter. Matters of efficiency, profitability and enhancement of shareholder wealth predominate at MNC level.

Critical concepts thus clarified, we now move on to identify the objectives upon which this study is based, or the basis upon which its outcome ought to be identified and judged.

1.2 Research Objectives

The following objectives are classified into either ***Macro Objectives*** or ***Micro Objectives***. This characterisation, which is distinct from *major* versus *minor* objectives, has nothing to do with ranking or priority. Rather, it is used here simply to highlight level rather than significance. A similar scheme is employed for the hypotheses that are specified later.

1.2.1 Macro Objectives

Our major objective at the macro-level is to briefly identify and outline the nature, scope, and outcome of Zambia's Structural Adjustment Programme between 1983 and 1993. An understanding of the impact of structural adjustment on the manufacturing sector can only be meaningfully gained from a prior examination of and familiarity with the nature of Zambia's SAP.

1.2.2 Micro Objectives

(1) To assess the impact, positive and/or negative, of Zambia's 1983-93 SAP on **Manufacturing Business Strategy.** This examination shall take the form of providing, through a field study, answers to the following questions, among others:

(a) What have been the capacity utilisation rates in the years 1983-1992?

(b) What have been the sales growth rates for the same period?

(c) What has been the foreign exchange generation and utilisation capacities in this period?

(d) What has been the impact of trade liberalisation on the above and other performance criteria?

(e) What has happened to raw material and product markets during the period in question: have companies re-oriented inwards for their raw material needs? Have they diversified into other products and markets and, if so, which ones and why? Diversification is a strategy that we mention constantly in this Thesis. In the Business Policy/Strategic Management context in which we use it here, it can refer to a host of different types of strategies (Jauch and Glueck 1988: p246) at the firm level. It can refer to changes in products, markets, or functions; it can be done internally or externally, horizontally or vertically; and it can involve changes that may be related or totally unrelated to the current business definition— called, respectively, related diversification and un-related diversification.

(f) What impact have devaluation of the Zambian Kwacha and other SAP measures had on corporate performance?

(g) Are there differences in the manner in which the sub-sectors of the manufacturing sector respond to the above and other related questions? If so, what are they and can we account for these differences?

(2) To discover to what degree Zambia's SAP has been able to re-orient the sector to local raw material dependence.

(3) To assess, both quantitatively and qualitatively, the potential

of the manufacturing sector to replace copper as the main-stay of the economy.

(4) To compare, using relevant criteria, both inter-industry and intra-industry responses to the various issues brought out by the first four micro objectives.

In addressing the above micro-objectives, a further major contribution of this study shall come from analysing the performance of the manufacturing sector during four economically important periods in Zambia's history, namely:

(a) 1983-84: the formative years of the structural adjustment decade,

(b) October 1985-May 1987: the foreign exchange auction years,

(c) May 1987-1988: abandonment of the IMF-Programme, introduction of the "Restructuring from our own resources" programme,

(d) 1989-1993: the height of the adjustment decade covering, among others, re-embrace of, and a return to, the IMF-adjustment menu and its related conditionality, which has seen the country:

* engage in the most far-reaching liberalisation programme hitherto,

* introduce a two-tier, first and second window, foreign exchange allocation system,

* set the parastatal reform programme, including privatisation, in motion,

* introduce a freely floating exchange rate mechanism, which has seen the Kwacha depreciate to record lows against major international currencies such as the dollar and pound, and

* under the new Movement for Multiparty Democracy (MMD) government, engage in the most far-reaching market reforms ever.

(5) To offer other reforming less developed countries (LDCs) some cardinal lessons regarding both the macro and micro impact of SAPs, based both on available literature and the Zambian experience.

With regard to manufacturing, SAP has been designed to have a positive impact on output, efficiency of resource use, and the expansion and competitiveness of non-traditional products on the local and international

markets. The question we are trying to address is, of course, has this happened?

1.3 **Scope of the Study**

1.3.1 Macro-level : discussion of Zambia's structural adjustment programme at the macro-level, in this Thesis, is limited predominantly to its nature, little is said about its process and outcome. Even the discussion on its nature is itself quite limited. This is neither an oversight nor a mistake, since the main focus here is on the impact of the programme on manufacturing business strategy: from a Business Policy/Strategic Management standpoint. In order to appreciate what this impact has been, the nature of the country's SAP has to be outlined. Hence the need to venture into the macro-level aspect of the country's economy and programme, an area that may otherwise be the exclusive preserve of main-stream economists as opposed to management scholars.

It is hoped that the multi-disciplinary approach used here— covering such areas as marketing, strategic management, finance and accounting, and economics— adds a new dimension to the Zambian SAP debate.

1.3.2 Micro-level: in order to keep the study within resource (time and money) limitations, the agricultural sector is not examined in this study, except to the extent that the manufacturing sub-sectors include agro-based industries as well. The importance of agriculture need not be overemphasised: any meaningful economic restructuring in Zambia must be based on agriculture. The agricultural sector, and the impact of SAP on it, has been researched by such writers as Thomas and Weidemann (1988), Good (1985), Geisler (1992), and Kydd (1983, 1989). Gulhati (1989: p20) sums up GRZ policy bias against agriculture thus:

"Although Zambia has plenty of uncultivated land of reasonable agronomic potential, its production performance has been disappointing...Although other factors contributed to this situation, it was largely a result of the policy framework. The government's declared intention, repeated on many occasions, was to promote agricultural and rural development, but two facts suggest that this did not happen in practice. First, agriculture received only 6.6 percent of total fixed investment during the First National Development Plan (1966-1970), falling to 5.2 percent during the second. During 1975-80, only 3 percent of total government expenditure went to this sector. Second, the terms of trade of the rural areas (in

relation to urban) deteriorated by 54 percent during 1964-73 and by a further 23 percent since that time. The government fixed the producer prices of most major crops, and their level remained well below border price equivalents. Meanwhile, the price farmers paid for locally manufactured consumer goods reflected the high protection against imports the government had given to the industrial sector".

1.4 Rationale for the study and expected contributions

The Stakeholder approach —in terms of who has the most immediate interest in the findings and recommendations of this study— is loosely employed here to address the rationale and likely contribution of this research. The question being addressed is why the particular topic we are addressing— and not any other— was chosen in the first place.

1.4.1 Why the manufacturing sector was chosen: the position has been taken elsewhere in this study that a re-structuring of Zambia's economy is necessary to stimulate and diversify production, to overcome the dependence on copper, to become self-sufficient in food and other goods for home consumption, as well as, clearly, to increase the standard of living of the growing rural and urban population through boosting domestic production.

Manufacturing, one of the five pillars identified earlier, has been chosen for in-depth analysis because, in the author's opinion based on available evidence, it offers perhaps the best real opportunity for replacing copper in economic importance alongside, if only slightly behind, agriculture. In both sectors, there is abundant potential for increased production and foreign exchange earnings. Agricultural production, in the view of Meier, Steel and Carroll (1989), can save foreign exchange by supplying the local market with grain and other food, and earn foreign exchange by producing export crops. Agriculture has also the best potential to augment the consumption of the poorer masses. It cannot be overemphasised that any strategy of development that leaves unchanged the standard of life of the rural population is clearly misconceived.

In the manufacturing sector, tremendous scope exists for efficient import substitution and export diversification. Expansion of the manufacturing sector may help raise the growth of productivity in agriculture in two

ways (Seshamani 1988: p53): by absorbing redundant labour from the rural sector, and by providing modern inputs which raise both land and labour productivity. Chandra (1992: p2) also recognises the complementary nature of the two sectors, noting that in LDCs— most of which are agricultural societies— the development of manufacturing can help the agricultural sector in ways not confined to: processing of agricultural commodities— thereby adding higher value; encouragement of efficient forms of production and marketing in the agricultural sector; and improvement in the availability of food items by making them available as processed foods.

Within Zambia the importance of manufacturing lies more specifically in its being a vital link between the primary producing sectors— agriculture and mining— and the consumer. It also has the greatest potential for creating intra-sectoral linkages (ibid).

1.4.2 Copper to run out by 2025: various reports and analysts— among them Kydd (1988: p115)— indicate that useful copper ore deposits in Zambia will be exhausted within the first quarter of the next century. Zambia Consolidated Copper Mines (ZCCM) Chief Executive Edward Shamutete has disclosed that Nchanga Open Pit mine and the Tailings Leach Plant will be exhausted by the year 2000, as will Luanshya and Baluba mines. Konkola, Mufulira and Nkana mines may last until 2010 (News From Zambia, 6 June-8 July 1992). Harvey (1991: p146) also reports that Zambia's copper will be exhausted by the year 2010. With regard to the steady decline in grade of ore reserves, Gulhati (1989) estimates that in 1973, around 43 tones of ore yielded one tone of finished copper, while by 1983, 53 tones of ore were needed to produce the same amount of finished copper. As of 1989, he estimated a useful copper life of some 17 years. Copper levels of production, prices in both New York and at the London Metal Exchange [LME] and level of foreign exchange earnings have all been declining consistently in recent years while production costs have been going in the opposite direction.

Fardi (1991) indicates that Zambia's copper production costs are among the highest in the world, with Gulhati (1989) estimating that real costs

per ton rose at a rate of 2.7 percent per annum during 1972-76. He attributes the rise in costs to growing physical difficulties such as having to mine at greater depths and flooding, and also partly due to management and supervisory weaknesses. This is a factor which— coupled with the decline in copper prices— has had an adverse impact on the profitability of the industry and on Zambia's terms of trade (TOT).

Kamya (1983: p1) also adds that demand in the traditional copper consuming western countries is declining because of: the continued reduction in the volume of copper per unit of output during the production process— quantitative substitution; the steady replacement of copper by other cheaper commodities or by metals whose market prices are more stable— for instance stainless steel in the cooling system of automobiles; and the existence of secondary copper— old copper scrap which the industrialised west is able to recover from rejects, discards, and old installations at post offices, railways and telecommunications.

It is vital for us to note that despite the drop in both copper export levels and foreign exchange (forex) earnings, its share in total forex earnings has changed very little. It is a fact that without copper export earnings and the employment it currently generates, the entire Zambian economy would at the moment collapse completely. Kydd (1988: p115) appropriately refers to the need for Zambia to diversify as no longer merely a desirable goal, but a matter of economic survival.

The most important question we are trying to address in this Thesis is therefore simple: when (not if) the copper crunch comes, will the other sectors be capable of replacing this Cash-Cow[3]? To what degree will the manufacturing sector, for its part, be able to replace copper in foreign exchange earning terms? We aim, here, to provide quantitative and qualitative insights into these crucial questions. At the 21-23 March 1992 SAP conference in Zambia (see acknowledgements) Professor Tony Killick appropriately referred to this as the crux of the adjustment problem facing the Zambian economy.

1.4.3 Paucity of current knowledge on the micro-level impact of SAP: an overwhelming majority of economic studies on Zambia have tended to relate directly or obliquely to copper, perhaps understandable in the light of its importance to the economy. The handful of studies that have emerged on manufacturing have either been narrowly focused on aspects of its early development, or have not covered the critical 1983-93 SAP period which clearly one has to venture into if any useful manufacturing-related lessons have to be learnt for the rest of this century and beyond. What we are saying, in short, is that because the national economy is the sum of many parts— or pillars as we have called them— it becomes necessary to learn more about how the individual sectors are working under structural adjustment. This is necessary in order to assist the process of formulating appropriate sector-specific policies.

1.4.4 Manufacturing sector in Zambia: "this type of study is long over-due" are exact words used by 3 firms during this author's field trip to Zambia, they do sum up the hopes of this study for the sector. It has to be hoped that firms will benefit from the series of seminars this author hopes to organise after the PhD as a direct response to the numerous requests that results should be fed back— made by companies and politicians during the field trip to Zambia.

1.4.5 Local and Foreign investors: this research is also aimed, not unrealistically, at potential local and foreign investors wishing to explore investment opportunities in Zambia's manufacturing sector. It is hoped that the sub-sectoral approach used here will help them to decide which, if any, of the sub-sectors offers the most viable investment option. We are saying, for example, that if a potential foreign investor is concerned about the availability of foreign exchange and wishes to invest in the least import-dependent sub-sector of Zambia's manufacturing sector, this study ought to provide a useful basis for such a decision. Coming at a time when Zambia's privatisation programme (chapter 6) is taking off the ground, such an evaluation cannot have been more opportune.

1.4.6 There is also what Killick refers to as an ever present temptation to slip from the poor average record of SSA manufacturing industry to

assuming that *all* have performed poorly or have similar problems. In discussing Zambia's manufacturing sector along sub-sector lines, we attempt here to indicate whether or not such a temptation at sub-sector level ought to be resisted.

1.4.7 SAP-mania: a kind of SAP-mania has gripped both Economics and Business Schools in major Universities across Europe and North America in the late 1980s and early 1990s—the Institute of Development Studies (IDS) in Sussex alone had 7 Doctoral students writing on different aspects of it as of March 1993. This is a reflection of the increasing importance that LDCs have come to place on structural adjustment in their quest for economic turn-around and survival. Gulhati— then World Bank chief economist for Eastern and Southern Africa— wrote in 1989:

"...paper is dedicated to the many Zambian friends who freely gave their time to talk candidly about the issues. I wish it had been possible for some Zambians, who had had an insider's view of the unfolding economic policy process, to write down their insights. It is my firm belief that no one analysis of the policy process can capture it in all its key dimensions. A number of contributions from different vantage points, therefore, would have been enriching".

This one may not be the best study ever written from what Gulhati calls "the inside", but hopefully its trenchant treatment of the issues of the hour offers some freshness.

1.4.8 This author's voice in the SAP debate: if the foregoing stakes constituting the rationale for this study can be at least partially satisfied, then this author will have moved closer to satisfying the ultimate criterion by which efforts of this kind are judged: adding to our cumulative knowledge and understanding of the impact of SAPs.

1.5 Operating Hypotheses/Running theme of the Study

It is the overall belief here that despite efforts to remedy the situation, congenital and policy rigidities in the Zambian economy in general, in the manufacturing sector in particular, continue to be largely responsible for the continuing economic crisis. Our story-line is therefore that:

1.5.1 **At the macro-level,** structural adjustment has neither halted nor slowed the downward slide in the performance of the Zambian economy, as congenital structural rigidities in the country's economy have remained intact despite a decade of sometimes courageous IMF/World Bank-inspired adjustment.

1.5.2 **At the micro-level,** Zambia's structural adjustment programme has so far failed to stimulate the transformation of the manufacturing sector towards achieving efficiency in import-substitution or reaching world standards in export performance. That is to say the critical manufacturing sector objective of self-sufficiency through diversification— along product and market dimensions; in-ward raw material sourcing; export-led growth; and foreign exchange self-sufficiency has not been attained during the 1983-1993 first adjustment decade.

1.6 Limitations of the Study

1.6.1 The counter-factual argument— a cautionary note: it would be nice to attribute whatever has happened to Zambia's economy in general and its manufacturing sector in particular wholly to the effects of the structural adjustment programme, because then all we would need to do is blame it all on the IMF and World Bank and get on with the rest of our lives. In fact it is not that simple. Statistics abound on the already deteriorating economic conditions of the Third World, including the poor and vulnerable (the unemployed, disabled, aged, women and children) long before the on-set of serious adjustment.

In fact it can be argued that it is these conditions which precipitated adjustment in the first place. In the LDCs in general and in SSA in particular, factors such as the effects of poor past policies, the high rate of population growth, economic recessions, poor commodity prices, civil and tribal wars, drought and consequent famine, corruption and disease, among others, have clearly— perhaps largely—been responsible for the worsening condition of the poor and vulnerable majority.

The strong point being made is that it is not possible to isolate and prove that what has happened is due solely to SAP, because other factors may well be responsible for the positive and/or negative outcomes at both the macro/national level and the micro/manufacturing sector level. Be that as it may, this does not absolve us, in the current circumstances, from highlighting any intrinsic deficiencies in the philosophy, content, timing, and implementation of Fund and Bank programmes with a view to recommending improvements and/or alternatives, however humble this attempt might prove.

1.6.2 Just as it is not possible to isolate precisely the impact of SAPs from the impact of pre-SAP deterioration as argued in section 1.6.1 above, so too is this study unable to claim that isolating the impact of individual SAP measures on manufacturing is an easy task. This is so because most of them combine to impact on the sector and the economy simultaneously. Hettige, Steel and Wayem (1991: p7) agree that analysing the impact of adjustment policies on the industrial sector is complicated because policies have both positive and negative effects and the impact differs according to each industry's characteristics. Besides altering incentives through their effects on relative prices and demand, they argue that adjustment policies and lending may tighten or relieve financial, foreign exchange, and other constraints on producers' ability to respond.

1.6.3 Data limitations: a number of authors (both big and small, national and international) have for a long time decried the lack of both adequate and accurate statistics on economic variables in the third world[4]. Not only has this situation not changed, but more importantly both Zambia and this research do not enjoy any special immunity.

1.6.4 No mutual exclusion: the sub-sectors of the manufacturing sector are not mutually exclusive, because firms with diversified portfolios have significant presence in other sub-sectors as well. This situation is not peculiar to Zambia alone. Neither does it lend itself to easy resolution.

1.6.5 Generalisability: data from the 43 surveyed firms that informs chapters 7, 8 and part of 9 is only fairly representative of the

manufacturing sector. Any higher assessment may be mis-leading in the absence of knowledge about the precise number and location of firms in Zambia.

1.6.6 **Errors of omission and commission— a necessary disclaimer:** in attempting to keep this Thesis long enough to be useful but short enough not to be daunting, no claims can be made that it is roundly exhaustive. Such a claim would not only be unprofessional, but would also be both mis-leading and indicative of bad judgment: discussions on SAPs— if one cares to keep abreast with its myriad debates— inevitably involve errors of both omission and commission about which, in many respects, not much can be done. This is due to the multi-dimensional and contentious nature of the subject.

1.6.7 **Ambiquity of non-traditional exports:** anomalies do exist, in the Zambian case, with regard to the composition of non-traditional exports (NTEs). Semi-processed copper bars from Metal Fabricators of Zambia (ZAMEFA) in Luanshya, for instance, are treated as NTEs when, in fact, they are copper-related and have, more significantly, been exported sufficiently long enough to qualify as a traditional export. The same applies to several agricultural exports. Because Zambian statistics still lump these under NTEs and we have no way of identifying and separating them— except, perhaps, for ZAMEFA— our study unfortunately perpetuates the same error.

1.7 Order of the rest of the Study

Comprising a total of 11 chapters, this study can only arouse interest if it has any new lessons to offer: either by providing new analyses and answers to old problems, answers to new problems, or answers to questions never before raised. We try to do all three. In reviewing relevant existing literature on SAPs, Chapter 2 provides a glimpse of the extent of the debate on structural adjustment programmes. Phillips and Pugh (1987: p53) in their widely read book— by Doctoral students— on "How to get a PhD" aptly summarise the need for this literature review when they advise PhD students in general:

"So you must be aware of the present state of the art: what developments, controversies, break-throughs are currently exciting or enraging the leading practitioners and thus pushing forward thinking in the subject".

The chapter examines available evidence on whether SAPs have been successful, or a disaster. Equally importantly, chapter 2 identifies where a good part of our overall contribution in this study will come from.

Precisely how the data for the study was gathered and analysed is the focus of Chapter 3. Available literature had to be reviewed before the actual data collection, hence the placement of Chapter 2 before the methodology chapter. Chapter 4 clarifies the concept of conditionality by reviewing among other things its layers, dimensions, criticisms and defences. The goals of SAPs and criteria for evaluating their achievement precede this discussion. The origins of Zambia's structural crisis, the nature and outcome of the country's 1983-93 SAP, and highlights of the new (MMD) government's economic agenda are all discussed in Chapter 5.

We begin our micro/manufacturing sector analysis, in Chapter 6, by looking at the nature and characteristics of the country's industrial sector: the sector's structural rigidities are outlined, highlights of the general arguments for and against privatising state-owned-enterprises are given, and a preliminary critique on the extent of the privatisation debate in Zambia is offered. Chapters 7, 8 and part of 9 attempt an empirical, micro-level, cost-benefit analysis of Zambia's SAP over the last 10 years focussing on, inter alia: capacity utilisation rates, sales growth rates, export performance, access to foreign exchange, raw material imports-versus-local sourcing, and issues of working capital and general financial management. While chapter 7 does this using 43 surveyed manufacturing firms in Zambia, chapter 8 selects 4 of these as case studies and attempts an appreciation of the impact of the 1983-93 SAP at the enterprise level.

The major question our study tries to answer concerns the export performance of Zambia's non-copper, non-traditional export sector. To what extent is the non-traditional export sector ready to replace copper in export earnings? Chapter 9 is devoted to answering this question.

The entire story is then synthesised in two Chapters: 10 and 11, which bring together Zambia's SAP lessons of the past and present for the future, at both the macro and micro levels. Chapter 10 summarises the main findings and conclusions of this study, before chapter 11 offers recommendations to the donor community, the Zambian government, the manufacturing sector, individual sub-sectors, and 3 of the 4 cases that inform chapter 8.

Chapters 10 and 11 would normally have been combined. That this is not the case here is a reflection of two factors. First, the complex, multifaceted nature of SAPs in general— and the need in our case to address both the macro and micro aspects of the debate— meant that one chapter alone would greatly compromise clarity of both thought and presentation. The second, related, factor emanates from this author's desire that this study should not be an end in itself: that it should specify (in chapter 11) what needs to be done for Zambia's SAP to succeed— and done by whom; and in chapter 10 offer among other things some useful SAP lessons for other LDCs.

FOOTNOTES

1. Under the United National Independence Party (UNIP) the programme was scheduled to ran from 1989-1993, but the Movement For Multiparty Democracy (MMD) upon taking over designed theirs for 1992-1994.

2. The mission of a company— from which objectives derive— is simply the answer to the question "what are we in business for?" Thompson and Strickland (1984: p21) refer to an organisation's *purpose* or *mission* as its top management's concept of what the organisation seeks to do and the customer groups and customer needs it intends to serve. Expressing organisation purpose or mission in managerially meaningful terms provides a view of what activities the organisation as a whole intends to pursue now and in the future. It says something about what kind of organisation it is now and is to become and, by omission, what it is not to do and not to become. The starting point in any organisation as to its reason for coming into being, the mission statement also depicts the organisation's character, image, and scope of activities in ways that are detailed enough to distinguish the organisation from other types of organisations. Suffice to mention, here, that all organisations (profit-making or not) have missions. Whether the mission statement is explicitly given is, of course, a different matter. Our survey of 43 manufacturing firms in Zambia that informs chapters 7 and 8 revealed that only one in 8 firms has an explicitly written mission statement.

3. In strict Business Policy phraseology, cash-cows at the firm-level are defined as strategic business units (SBUs) experiencing low-growth but high market share. Their distinguishing characteristic— as in the case of Zambian copper— is that they are "milked" to provide funds for overheads, dividends and, more crucially, investment for other high-growth-potential SBUs in the firm. In the case of copper, these funds would typically go towards development of the other 4 economic pillars identified earlier on.

4. See, for example, Killick (1992b), p2. Riddell, et al., (1990: p10) describe the data on manufacturing in SSA as woefully inaccurate and inadequate.

CHAPTER 2: WHAT OTHERS HAVE SAID AND DONE ABOUT STRUCTURAL ADJUSTMENT PROGRAMMES

2.0 Chapter Objectives

The main object of this chapter is to continue making the case for, and by implication continue highlighting the contribution of, this study by examining what others have said and done about structural adjustment programmes (SAPs) in general, Zambia's in particular. More to the point, gaps in current knowledge shall be identified here, which knowledge gaps it is the intention of the current study to fill. The chapter begins with an overview of the SAP debate in general, later discussing the critical question of whether SAPs— at both the international macro and international micro/manufacturing levels— have been a success, or a disaster. Together with the criticisms and defences of conditionality to be discussed in chapter 4, this is clearly where the SAP-debate is currently raging.

In order to make the literature review a systematic process, this author uses discussion criteria by introducing such concepts as SAP-Skeptics (SSs), Afro-Pessimists, Afro-Optimists/SAP-Optimists, and Middle-grounders. These will be defined later. We must caution, from the outset, that although this 5-level characterisation is quite useful in setting the discussion on crucial issues, it may not in fact be a true reflection of the real-life positions taken by the various authors on SAPs— for the simple reason that most authors rarely sum up precisely what their positions on the SAP debate are. This is understandable, because usually there are sound arguments to be made on either side of most SAP debates. Our categorisation should therefore not be taken to imply fool-proof certainty about which authors fall into each category, but rather as a general guide as to what level and aspect of the debate we are addressing.

That most of the discussion centres around Sub-Saharan Africa (SSA) is no coincidence or mistake: it is both the region with the poorest development record and the largest number of nations— of any one sub-region— attempting Bank-Fund economic reforms.

2.1 Review of the literature on SAPs in general

2.1.1 At the macro-international level

As the main architect of structural adjustment programmes— a point we made in chapter 1— it is fair to expect the World Bank to hold some strong views on both the causes of Africa's structural crisis, as well as on necessary remedies. The Bank does.

The World Bank issued four landmark[1] SAP-related publications on SSA in the 1980s. They were, in chronological order: *Accelerated Development in Sub-Saharan Africa: An Agenda for Action (1981)*— hereafter called the "*Berg Report*" after its principal consultant, Elliot Berg (Green 1985: p29); *Sub-Saharan Africa: Progress Report on Development, Prospects and Programmes (1983)*— hereafter called the "*Progress Report*"; *Toward Sustained Development*[2] *in Sub-Saharan Africa: A Joint Programme of Action (1984)*— hereafter called the "*JPA Report*"; and finally in 1989 it issued "*Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study*"— hereafter called the Bank's "*LTPS Report*".

In the limited space we have, it is difficult to do justice to the many important issues and controversies that the reports raise. *Yet it is necessary for us to discuss the four publications for so many reasons, including the important fact that they place in perspective the type of structural rigidities and challenges that have faced Zambia and other SSA countries.* Among the salient features of the respective reports are the following:

The 1981 Berg Report: this was prepared at the 1979 request of the African Governors of the World Bank, who had expressed their alarm at the dim economic prospects for the nations of SSA and wanted a special paper on the economic development problems of those countries (World Bank 1981: p1; Carlsson 1983: p iv; Ndegwa 1985: p61). It discusses the factors that explain slow economic growth in Africa, analyses policy changes and programme orientations needed to promote faster growth, and concludes with a set of recommendations to donors, including the recommendation that aid to Africa should double in real terms to bring

about renewed African development and growth in the 1980s (World Bank 1981: p1).

The *Berg Report* pins the blame on Africa's disappointing economic performance squarely on internal structural inadequacies— including underdeveloped human resources, the economic disruption that accompanied de-colonisation and post-colonial consolidation, climatic and geographic factors hostile to development, and rapidly growing populations— as well as on external factors, such as adverse trends in the world economy particularly since 1974.

The report cites three domestic policy inadequacies that have exacerbated the above problems (World Bank 1981: p4): trade and exchange rate policies that have over-protected industry, held back agriculture, and absorbed much administrative capacity; too little attention paid to administrative constraints in mobilising and managing resources for development— thereby over-extending public sectors given weaknesses in planning, decision making, and management capacities; and finally the *Berg Report* blames what it calls a consistent bias against agriculture in price, tax, and exchange rate policies. Insisting that production and growth must be given the highest priority, the report suggests a three-pronged policy re-orientation to address the above problems (ibid: p5) namely: more suitable trade and exchange rate policies; increased efficiency of resource use in the public sector; and improvement in agricultural policies.

The *Berg Report* has had its critics— see, among others, Simson (1985: p122); Stein and Nafziger (1991: p176); Carlsson (1983); Ndegwa (1985: p18); and Browne (1988: p5). At the time of its release, for instance, African leaders were highly critical of the report: not only because it was a document produced with very little input by Africans, but also because its analysis of the causes for Africa's economic deterioration concluded by placing principal blame on the policies and actions of African governments, while attributing only secondary importance to such external factors as the economic, trade and monetary policies pursued by the developed countries (Browne 1988: p5; Simson 1985: p122).

These criticisms notwithstanding, our own position is that the *Berg Report* represented a very useful starting point in the search for structural transformation in SSA. As Lancaster (1988: p30) points out, the Berg Report was the first to point world attention to the depth and extent of policy failures and the need for broad-ranging reforms on the African continent. Browne (1988: p9) goes so far as to suggest— despite his criticisms— that the report presaged a major shift in the focus of the World Bank toward SSA.

The 1983 Progress Report: this was the first major update on the *Berg Report* of 1981. It highlighted the initial post-Berg design and implementation problems of reform programmes— particularly in the context of the deteriorated global trading and financial circumstances. The *Progress Report* examined changes that had been introduced in the level, pattern, and design of World Bank economic work and operations in support of such reforms. It also reviewed the extent of donor government responses to the increased and changed needs of African countries for external assistance (World Bank 1983: p i).

The *Progress Report* cited a deepening African crisis since the *Berg Report*, pointing to continuing deterioration in all major economic indicators— such as gross national product (GNP) growth rates, agricultural growth rates, and levels of exports and food imports. Among other things, the report can be judged important in two respects.

First, in the *Progress Report* the World Bank modified its *Berg Report* stance, where it had attributed the bulk of Africa's economic difficulties to poor internal policies (see also Browne 1988: p7). In the *Progress Report* the Bank placed equal blame on world economic conditions admitting, on page 3, that:

"Developments since 1980 warrant a greater degree of concern about the external economic circumstances confronting African countries".

Second, the bulk of the *Progress Report* focused on efforts which African countries were making in the directions of policy reform. In the 18-24 months between the *Berg* and *Progress Reports*, a handful of African

nations had launched policy reform efforts along the lines recommended by the Bank. These were mostly in the agricultural sector (Browne 1988: p7). Conclusions were spotty, but according to the World Bank (1983: p10) the general impression conveyed:

"...a greater willingness on the part of governments both to increase agricultural prices and to adjust exchange rates. However, these reforms have been less effective than intended in switching the internal terms of trade to agriculture and, in general, in stimulating the tradable goods sectors".

<u>The 1984 Joint Programme of Action (JPA) Report:</u> for a start we use the work of Browne (1988: p7)— who more ably handles the issue— to summarise the major contribution of the *JPA Report*. The *JPA Report* was issued some 12 months after the 1983 *Progress Report*. The *JPA Report* updated the progress made with policy reforms but placed far greater emphasis than did the *Progress Report* on the role of the donor community. Both the *Berg Report* and the *Progress Report* had stressed that increased external resources were absolutely essential if Africa were to implement policy reforms and return to a sustainable growth path. Both the earlier reports had also emphasised the desirability for increased coordination among donors to ensure more efficient use of official development assistance. By August 1984, when the *JPA Report* appeared, it was evident that external assistance was not forthcoming on the scale required and only modest success was accruing with donor coordination. Browne (1988: p7) concludes:

"The Bank was not shy in expressing its concern over this cavalier response from the donor community and the emphasis in the report is more on the need for these resources than on the extent of the policy reforms initiated".

The World Bank (1984: p3) itself concluded boldly:

"The emerging consensus on policy issues dwarfs any remaining areas of dissent. Delay in taking action, whether by African governments or donors, can no longer be justified on the grounds of major disagreements in diagnosis and prescription. Action in the main areas of agreement will be enough to ensure economic progress, and action now is a matter of urgency".

The Bank went on to propose a **Joint Programme of Action** under six sub-headings (ibid) as follows:

(i) **National Economic Management**— in which it called on African governments to formulate national rehabilitation and development programmes, involving more efficient and fuller use of existing capacity and resources in such areas as agriculture, power, education, health, and industry.

(ii) **Donor Programmes and Aid Coordination**— under which it called on consultative groups, United Nations Development Programme (UNDP) round-tables, and similar meetings to aim for more explicit and monitorable commitments by recipient governments and donors to implement their respective responsibilities under an agreed programme of action.

(iii) **External Support for Reform Programmes**— under which the Bank urged for the provision of adequate, timely, and sustained external financial assistance to programmes of major economic reform.

(iv) **Infrastructure**— under which it urged that public expenditure programmes should give greater emphasis to rehabilitation and maintenance of existing infrastructure in support of policy reform rather than to invest in new capacity.

(v) **Basic Constraints on Development**— under which it called for the formulation of low-cost, efficient, and well-targeted programmes in education, health, population, agricultural research, and forestry; and that these programmes should be determined and supported on a rising and continuous basis by donors, and

(vi) **External Finance**— under which it observed that the prospective decline in net flows to SSA from $11 billion to $5 billion was inconsistent with the programme of action for tackling the crisis in Africa, and urged both bilateral and multilateral donors to increase gross disbursements by about $2 billion each year. This particular recommendation led to the establishment, in July 1985, of the Special Assistance Facility (SAF)— see also Satpathy (1991: p63).

<u>The 1989 Long-Term Perspective Study (LTPS) Report</u>: this was the last Bank report on SSA in the 1980s. Its major departure from the other three reports is captured on the first page (World Bank 1989d: p1) where it placed more emphasis on education, nutrition, healthcare, grass-roots democracy and the environment— and on social and human issues in

structural adjustment planning— than any of its previous studies. The *LTPS Report* argued that:

"It is not sufficient for African governments merely to consolidate the progress made in their adjustment programmes. They need to go beyond the issues of public finance, monetary policy, prices, and markets to address fundamental questions— relating to human capacities, institutions, governance, the environment, population growth and distribution, and technology".

The *LTPS Report*, like its predecessors, has many critics— among them Satpathy (1991: p64), Stein and Nafziger (1991: p177). Riddell (1990: p6) has been one of the most consistent critics of the LTPS and other reports, for what he calls their "downgrading of the role of industry". He criticises the World Bank's 1989 joint publication with the UNDP— *Africa's Adjustment and Growth in the 1980s*— as hardly giving industry any mention; while the LTPS's list of six key strategies for the 1990s (see World Bank 1989d: p62) makes no mention of industry.

Riddell advances two major reasons for his criticism. First, he argues that the minor role given to industry is mirrored in aid priorities: foreign aid to manufacturing industry constituted less than 12 percent of total official aid to SSA at the start of the 1980s, has fallen sharply since then, and he argues that this trend is likely to continue (Riddell 1990: p5). His second argument is that accelerated industrial developments aided by a range of industry-specific policies have been important elements in the successful development of the Newly Industrialising Countries (NICs). Riddell's worry is that the "downgrading" of industry's role in addressing the problems of SSA could delay the day when the region reaches the goal of self-sustaining development.

Our own position is that if we take the 1981 *Berg Report* to have been revolutionary, then the 1989 *LTPS Report* was comprehensive and visionary— the latter view shared by Collier[3]. If Africa is to avert hunger and provide its growing population with productive jobs and rising incomes— the *LTPS Report* argued— then its economies needed to grow by at least 4 to 5 percent a year (World Bank 1989d: p4). It further argued that the primary source of this growth should be agriculture, so that SSA can meet its own food requirements and also

generate foreign exchange needed for development. To do this, the report urged for measures to raise the levels of domestic saving and investment, and to improve productivity by as much as 1 to 2 percent annually for labour and 3 percent for land (ibid).

It called on governments to provide an **enabling environment** of infrastructure, services and incentives to foster efficient production and private initiative. It talked about the need to build capacity— not only less government but better government, investing in people, slowing population growth, better healthcare, a better educated population, and a new start to industrialisation by expanding markets, building industrial capacities, and fostering African entrepreneurship.

In its outlook for the next generation, the *LTPS Report* warned that the world was on the threshold of a new technological age— driven by rapid advances in information systems, in the biological sciences, and in materials research. It saw good market intelligence, flexible production structures, and a fast response to new opportunities as the key to competitive edge among firms and farms. The report warned, most of all (ibid: p4) that:

"Biotechnology and materials sciences will provide a dazzling array of new products that may quickly make conventional processes and products in Africa obsolete. Against this background, an improvement in raw material prices is unlikely".

In the sub-sections that follow, we look at some of the general views regarding the usefulness of SAPs— from the point of view of the above World Bank reports.

2.1.1.1 **SAP-Skeptics (SSs):** in this section we look at some of the arguments by those who are skeptical about the adequacy of current SAPs in addressing the economic crises of less developed countries (LDCs), those in SSA in particular.

Inadequacy of SAPs: in a strong criticism of Bank-Fund SAPs the Economic Commission for Africa (ECA 1989) argues that on both theoretical and empirical grounds, the conventional SAPs are inadequate in

addressing the real causes of economic, financial and social problems facing African countries which are of a structural nature. The *ECA Report* finds the root causes of the African economic crisis in the weak productive base, backward technology and low productivity arising from the structures of production, consumption, technology, employment and socio-political organisation. To this end, we do not think that the *ECA Report* gives enough credit to the 1981 *Berg Report* discussed earlier on. It is there that these problems were first put in sharp perspective.

The ECA proposes an *African Alternative Framework to SAPs for Socio-Economic Recovery and Transformation* (AAF-SAP). The *ECA Report* is a laudable African effort, emphasising major elements of policy and proposing many areas that need reform and reforming. But as Woodward (1992: p236) points out, the AAF-SAP proposals are less clear on possible mechanisms for putting its many policies into effect, or for creating an economic environment in which they could be effective— for example in terms of eliminating over-indebtedness, or providing access to adequate new lending without causing renewed debt problems.

The ECA report suffers from the same deficiency as Zambia's 1987 "Recovery from our own Resources" or "go it alone" programme: it is conspicuously silent on where and how the forex needed to support the given policy prescriptions should come from. Adefulu (1991: p55) argues for instance that the goal of ECA's "structural transformation" is an integrated, self-reliant and sustainable economic development in Africa. But given Africa's current poverty— he observes— this goal cannot be achieved without external financial support.

Killick (1990c: p12) is another critic of the *ECA Report*. He says it only offers a conceptual framework within which country programmes might be designed, leaving a rather large number of questions unanswered. He says it also appears to be predicated on major political changes within Africa, which leaves it uncertain how much would be left of their approach within existing political systems. He argues that in short, the ECA has not so far convinced many others about the coherence and practicability of its alternative.

2.1.1.2 **Afro-Pessimists:** there are those who are pessimistic about the role of SAPs in SSA. The minor difference between SSs and Afro-pessimists is that the latter is discussed in the context of issues particularly germane to Africa.

(a) **Economic fat cows:** in a heated triad debate on the role and impact of the IMF in Uganda, Mamdani (1990, 1991); Mutebile (1991); and Jamal (1991) do seem to agree, for once, that IMF programmes have mostly bolstered the fortunes of the *Mafutamingi.* Mamdani (1990: p441) defines them as people with ill-gotten property and quick-yielding speculative investments, while Jamal (1991: p321) refers to them as "that motley group of wheeler-dealers in commerce who nowadays control the distribution of consumer goods in this land-locked East African country".

Commenting on Jamaica, Susan George (1988) likens IMF doctrine to having "given more to the rich, less to the poor". The nature of income distribution, she argues, took the form of the rich investing their windfall not in job creation but simply in speculation or even more simply in foreign bank accounts.

(b) **SAP-inspired government spending cuts increase social costs:** after a 2-year study of SAPs in Africa David Woodward (see New African, December 1992: p29) concludes that SAPs have done harm rather than good because they have reduced investment. He believes that other studies reaching more optimistic conclusions have used faulty methods. Woodward argues that government cuts in public spending have exacerbated the condition of the poor, and that attempts to ease this effect have not made much difference. He estimates, for example, that health care has done better in African countries which did not attempt structural adjustment than in those which did.
But Woodward's criticism (of the World Bank) ignores the Bank's own caveats. The World Bank (1988: p2) recognises that it is not easy to isolate the effect of adjustment lending from other factors— such as external shocks, prevailing distortions, the extent of involvement of the Fund and other lenders— affecting a country's economic performance. Conclusions about the impact of adjustment loans and programmes— the

Bank argues— require judgments based on incomplete evidence: and that quantitative indicators are just that— indicators, rather than definitive evidence.

Zeleza (1989: p34) is another SAP-skeptic/Afro-pessimist. He argues that neither the Fund nor the Bank have lived up to their advanced billing as possible saviours of Africa. He claims that on the contrary they have participated in what he describes as "the gory feast of milking Africa dry". To back his claims, he quotes the United Nations as reporting net transfers of close to $1 billion from SSA to the IMF in both 1986 and 1987. He concludes that SAPs have not only aggravated Africa's economic problems, but that they have also entailed severe social costs for health, education, nutrition, employment and maintenance of social institutions, as well as political costs for civil liberties and human rights.

Zeleza's criticism ignores the counter-factual: most African nations embarked on Bank and Fund supported SAPs in the early 1980s because of economic distress. What would have happened in the absence of SAPs? Although counter-factuals are hard to prove, in most African nations it is easy to make educated guesses as to what would have happened, and it is most probable that even if economies have continued to perform poorly under SAPs, they would have performed even poorer without them.

2.1.1.3 **Afro-Optimists and SAP-Optimists:** we define Afro-optimists as close mirror-image opposites of Afro-pessimists. They are those who make a case for the success of reforms, those who see more than marginal hope in SSA's quest for economic revival. **SAP-Optimists** view SAPs with not only optimism, but also in some cases cite real success stories— such as that of Ghana.

Not surprisingly, the World Bank tops the list of Afro-SAP-Optimists. Edward Jaycox— the "Mr Africa" Vice-President of the Bank (see The Courier, May-June 1991: p2) argues:

"...we take every opportunity to work against what we think are inadequate or inaccurate pictures of reality...in fact I think the situation in Africa looks much better today than it has in a long time. I am not talking here about commodity prices or yet about the results on the ground, but about the fact that the African leadership has taken a grip on its own problems as never before. They are better informed and they

use more of their own resources— human resources and knowledge. They have been able to appreciate the problems they face and have managed to get a lot more support externally than they thought feasible a few years ago. So we— meaning the Africans, the donors and everybody working on Africa— have managed to turn a vicious circle of declining performance and declining support into a virtuous one of improving performance and increasing support. That is why Afro-pessimism is wrong".

Jaycox's argument adds a new dimension to the debate about evaluative criteria for the success of adjustment programmes: that to the extent conditionality increases and improves SSA's awareness and appreciation of the problems and choices it faces, that in itself is a measure of success. In their latest contribution Bird and Killick (ODI 1993) would seem to agree, arguing that developing-country governments have increasingly become persuaded of the importance of financial discipline.

Anyone reading Jaycox's work on Africa cannot miss his close connection to and high hopes for the continent. In The Guardian (19 September 1991: p11) he admits:

"Everyone working in African affairs has to admit that we don't have all the answers yet, but we have some real successes".

He cites Ghana, Madagascar, Tanzania, Togo, Malawi and Kenya as "economic miracles", whose successful implementation of structural reforms stands in sharp contrast to unreformed economies in Ethiopia, Zaire, Sudan, and Somalia— among others— which he says drag down Africa's average growth rate. He says of the first group (ibid: p11):

"These people are not beggars, they know what they are doing, and they are succeeding".

Jaycox (ibid) complains about authors he says are doing a disservice to the people working in Africa:

"[They] homogenise the good and the bad, and come up with an average that is mediocre. You cannot lump these countries together. You have to recognise success when you see it".

2.1.1.4 **Middle-grounders:** then there are those middle-grounders— perhaps in the majority— such as Mosley, Harrigan and Toye (1991: volumes 1 and 2), who find mixed results on the impact of adjustment

programmes. On the general level, the three authors make what we consider to be two important contributions to research in general. First, they make the important remark that anyone who tries to research a topic of current operational concern (such as SAPs) soon discovers— as indeed we did— that their target is a moving one (Mosley, Harrigan and Toye 1991: p xv). Their second contribution, in our opinion, deals with the rationale or justification for their research. A previous study can provide a strong incentive to conduct new research. In their case they admit (ibid) that:

"The idea had been to produce a study of Bank conditionality that would stand comparison with that of Fund conditionality produced by Killick et al (1984)".

Killick (1992c)— who was accordingly obliged to read the 2-volume book— finds the authors' conclusions ambiguous. The 3 authors— basing their evidence on Turkey, Philippines, Thailand, Ghana, Malawi, Kenya, Jamaica, Guyana and Ecuador— address two major questions (volume 2: p 1) namely: the broad question of under what circumstances "aid" confers "power" in the sense of enabling a donor to influence a recipients' choice of economic policies; and the narrower question of whether the specific set of liberalising policies which the World Bank has tried to induce developing countries to adopt in the 1980s has done them any good. They find that the Bank's ability to exert policy leverage is frustrated by its inability to overcome domestic political resistances to intended policy changes and, in some cases, by the "territorial ambitions" of the IMF. They explain the latter point this way (vol 1: p102):

"For the Bank to invoke, at the time of its own supervision missions, prior Fund conditions which were not mentioned at the time of the Bank's loan appraisal, is neither in moral nor practical terms a satisfactory solution to the problem".

Killick argues that as a consequence the three authors, like the Bank's own evaluators, find the economic impact of SAPs quite muted: strengthening export performance and the external balance, but reducing investment and having no significant effect on GDP growth rates— suggesting it is unclear whether or not the Bank is achieving positive returns from its large investments in structural adjustment. Mosley,

Harrigan and Toye criticise the Bank as excessively concerned to roll back the state in LDCs and as underplaying the seriousness of market failures in such countries. In the same breath, however, the authors of "this most impressive study— by far the most substantial of independent evaluations of the Bank's structural adjustment loans (SALs) and a valuable addition to the literature[4]"— express admiration for the increasing transparency of the Bank's structural adjustment activities and its desire to learn from experience. They arrive at a broadly supportive final judgment (in volume 1: pp 307-8) that:

"Policy-based lending as such represents an imaginative response by donor agencies to the global economic crisis of the early 1980s, and that the problems which remain are design problems susceptible to reform...rather than problems which undermine the entire original concept".

It is not our intention to dwell too long on the Mosley-Harrigan-Toye report. A final point, though, ought to be made with regard to their methodology— as presented from page 181 to 294 of their first volume. They use three approaches on the question of the effectiveness of adjustment lending: a control group approach, a regression analysis, and a causality analysis. In chapter 4 we shall discuss some of these, and show the major problems associated with these methodologies in general. For a competent critique of the above methodologies, see Woodward (1992: pp92-96). The impression must not be created, however, that Mosley, Harrigan and Toye do not recognise the short-falls inherent in their methodologies. They clearly do.

In the preface to the 1991 book edited by Thomas V, et al, John Holsen of the World Bank is quite succinct about the effectiveness of SAPs:

"Although the effectiveness of structural adjustment and adjustment lending has varied considerably across countries and policy areas, the overall judgment is one of qualified optimism. Definite conclusions are not yet possible, however, and efforts to evaluate the success of adjustment programmes and adjustment lending must continue".

Killick (1992a: p6) himself sums up by saying there is no strong evidence that International Financial Institution (IFI)-supported adjustment programmes achieve their objectives:

"The indications are that, when implemented, they help in some degree but that the results are less than dramatic. Indeed, there's a shortage of countries where it can be convincingly claimed that adjustment programmes have made a decisive difference, particularly in Africa and Latin America, although in some there has been encouraging progress. Moreover, there's an even smaller number of countries of which it can be said that improvements have become self-sustaining, so that they will achieve consistently better results over a period of years".

Killick sustains the above view in his latest research with Bird (see ODI 1993). They argue that the effects of Fund programmes— and the extent of their influence on macroeconomic policy— are over-rated. They say the Fund is able to secure sustained improvements in the BOP, but it is unable to achieve its objectives on growth and inflation, or to exert decisive influence on fiscal outcomes and credit expansion. Bird and Killick find that a high proportion of Fund programmes break down before the end of their intended life.

Adefulu (1991: p38) is another middle-grounder. He says few analysts would disagree with the view that Africa's "disarticulated" economies are overdue for fundamental restructuring, and that SAP would probably accelerate the process of rational allocation of productive resources in the short-term. But he disputes the supposedly beneficial impacts of current programmes on standards of living, long-term growth and development in SSA. He advances two main reasons for his ambivalence (ibid: p53). First, he argues, SAPs in their current form ignore the fact that the production base of post-colonial African states is narrow, and that the bulk of these states rely on one or two export products whose prices are often unstable in the international market for their forex earnings. Faced with unpredictable export earnings, most African states find it difficult to service debt and at the same time pay for desirable imports to cushion the effects of SAP. His second argument is that the standard SAP package with its emphasis on devaluation and domestic credit squeeze tends to ignore the inflationary effect of the former, while underestimating the social cost of the latter in terms of its effects on living standards in Africa.

As with Woodward's argument already discussed, Adefulu ignores the counter-factual. Social costs could possibly have been much worse without SAPs, if African economies were allowed to go into what Jaycox loves to call "free fall". Secondly, there is no evidence to suggest that

the World Bank, especially, is unaware of the mono-export orientation of SSA economies. Quite the contrary. That is why the Bank insists SSA economies must diversify their production bases, and it always offers export orientation as a necessary strategy.

2.1.2 **At the micro-international level**

We start this section by observing that the role of manufacturing industry towards the transformation of SSA economies cannot be overemphasised.

As the World Bank's first serious study on SSA— the 1981 *Berg Report* (World Bank 1981: p91) put it:

"Industrialisation has a crucial role in long-term development: it is one of the best training grounds for skill development; it is an important source of structural change and diversification; and it can increase the flexibility of the economy and reduce dependence on external forces. Industrialisation also provides employment, foreign exchange, and domestic savings".

As Lall (1992: p105) points out, the above arguments apply as forcefully to Africa as to any other region— perhaps even more so because the relative reliance of SSA countries on unreliable primary exports, the relative backwardness of their economic structures and the relative lag in their skill and institutional development, are greater than suffered by most countries in Asia or America.

One of the most important early SAP-related studies on industrialisation in SSA was undertaken for the World Bank (in 1984) by William Steel and Jonathan Evans. Steel and Evans reached four important conclusions with regard to industrialisation in SSA. All four conclusions, we must stress, support earlier views expressed in both the *Berg Report* (1981) and to some degree the 1983 *Progress Report* of the World Bank. The four conclusions— which apply equally to Zambia— are that:

First, conditions for industrialisation were generally lacking at the time African countries gained their independence— a point we shall expand in chapter 5 in the case of Zambia[5]. The subsequent desire to reduce economic dependence on the colonial powers led to a development strategy that favoured industries substituting for imported[6] consumer goods.

Second, the inward-looking strategy of industrialisation, as it was implemented in most SSA countries including Zambia, increased dependence on imports and was not supported by policies to promote a growing surplus of domestic inputs.

Third, incentives favouring capital, high effective protection to assembly-type industries, and direct controls over prices and foreign exchange have tended to introduce distortions and to support inefficient industries while discouraging agricultural and export production. Lastly, the trends and structure of industrialisation in SSA indicate that the objectives of growth, diversification and increased national control were largely achieved during the 1960s, but fundamental problems became increasingly evident with a slow-down beginning in the 1970s.

Steel and Evans (1984: p53) attribute the slow-down to a number of factors. A few are discussed below.

(a) Capacity under-utilisation: they argue that the dependence of Africa's import-substitution industries on imported inputs has made capacity utilisation vulnerable to fluctuations in the availability of foreign exchange. They point out that widespread under-utilisation of capacity due to inability to import materials and spare parts is a recurrent problem in SSA. They also make the important point that shortages of foreign exchange is not the fundamental problem: the underlying problem is the dependence of production on imported rather than domestically-produced inputs. Meier, Steel and Carroll (1989: p3) make the same point, arguing that the growing gap between SSA industry's imported input requirements and the availability of foreign exchange has contributed to the under-utilisation of capacity.

(b) Excessively high capital intensity: they blame public sector decision-makers as favouring large, impressive investments using modern techniques that pay inadequate attention to economic and factor-intensity considerations. Meier, Steel and Carroll (1989: p9) agree with this short-coming, especially what they describe as the excessively high import and capital components in production costs relative to the economy's generation of foreign exchange and savings and to the comparative advantage of using local resources and labour.

(c) They argue that the policy bias toward import substitution— together with price controls on agricultural products— discouraged the agricultural production that was needed both to supply raw materials for agro-based industries and to expand export earnings commensurate with industrial import requirements.

(d) High production costs: which they argue is the inevitable consequence of capacity under-utilisation, inadequate infrastructure, declining productivity, and excessive capital intensity.

Hettige, Steel and Wayem (1991: p1) argue that even at manufacturing level SAP results have been mixed, making it difficult to generalise about the impact of adjustment on industry as a whole. On the positive side, they claim that most SSA countries have been able to sustain or revive industrial growth and to induce substantial structural changes within the industrial sector. On the negative side they say investment has remained weak and the supply response has been constrained in most cases. They blame lack of access to credit as a pervasive constraint on industries with the potential to respond to new opportunities, especially small firms. They also cite weak domestic demand and increased competition as having restrained opportunities for others— especially micro-enterprises in activities with low barriers to entry. Meier, Steel and Carroll (ibid: p25) make the even more important observation that industrial adjustment in SSA is part of the larger problem of shifting resources to more efficient and dynamic uses through improved incentives and institutions. They argue that industrial growth alone cannot sustain growth in SSA economies— it requires complementary growth in agricultural and export production.

De-industrialisation: Stewart (1991: p423) argues that adjustment policy packages have tended to hold back industrialisation. For many SSA countries, she argues, the 1980s were years of industrial stagnation and even de-industrialisation— which she defines as occurring if industrial output per capita of the population falls. She asserts that in 19 countries (that is, half of SSA) industrial growth was less than 2 percent a year from 1980 to 1987; in 10 of them it fell over the period. For SSA as a whole industrial production fell by over 1 percent per year. These

countries were thus moving away from the goal of industrialisation, at cross purposes with long-run development needs. She blames this on the strong emphasis on import liberalisation in SAPs, together with general economic stagnation.

In the search for efficient industrialisation, Stewart, Lall and Wangwe (1992: p25) argue that there are two essential components of satisfactory development of industry in Africa: first, the industrialisation must be efficient, both in allocational and X-efficiency terms, so that resources are not wasted and the sector may eventually become a significant source of exports; secondly, African capabilities must be built up so that Africans increasingly perform all the main functions— managerial and technical.

We wish to make two points with regard to the above views. First, they are not new: *efficiency* was first given prominence in the World Bank's 1984 *Joint Programme of Action* (JPA) Report— the *Berg Report* did also allude to it— while the Bank's 1989 *Long-Term Perspective Study* (LTPS) gave prominence to the need to foster what the Bank called "African entrepreneurship". The second point is that the three authors are self-critical enough to admit that it is difficult to devise policies which are likely to increase efficiency while permitting build-up of African capabilities— because for the former, strong external competitive pressures may be desirable, while for the latter protection— at least for a limited period— may be essential. In their self-criticism Stewart, Lall and Wangwe (ibid: p23) point out that:

"The policies of the 1960s and 1970s emphasised protection of African industry but placed little emphasis on efficiency. The adjustment policies of the 1980s focused almost exclusively on efficiency, and paid no attention to capability building, thus effectively killing the goose that could lay the golden egg of efficient African industrialisation".

We wish to leave this section— the micro-international level— perhaps where we should have started it: with the important study made by Roger C Riddell, Peter Coughlin, Charles Harvey, Igor Karmiloff, Stephen Lewis, Jennifer Sharpley and Christopher Stevens. Their 1990 book— entitled "*MANUFACTURING AFRICA: Performance and Prospects of Seven Countries in Sub-Saharan Africa*"— was the end-product of a large project funded

by the British Overseas Development Administration's Economic and Social Committee for Research (ESCOR), and coordinated by the Overseas Development Institute (ODI) in London.

As with the Mosley, Harrigan and Toye study of 1991, it is impossible to do any review justice to "*MANUFACTURING AFRICA*". We say this for two reasons. First, at well over 300,000 words it is the equivalent of three other books (Cobbe 1991: p71). Second, the study is quite far-reaching. Cobbe (ibid: p73) for example sees it as:

"Overall... a very valuable addition to the literature on African development... the comparative lack of any solid analysis of manufacturing in SSA implies that this will be the first place to turn for quite some time. Certainly, it is a useful corrective and counterpoint to the views of the World Bank".

Stoneman (1991: p313) also awards "*MANUFACTURING AFRICA*" full marks, arguing that:

"This study is undoubtedly the most significant work on the manufacturing industry in SSA to be published in the last decade— or indeed any decade. Its significance is to be seen at three levels: the empirical, the theoretical, and the policy levels".

We would be remiss not to mention at least three of the most important points about "*MANUFACTURING AFRICA*". First, the authors appropriately "erect warning signs" around their discussion because of what they describe as the woeful inaccuracy and/or unreliability of much of the data available for comparisons, most notably those published by the international agencies. Their own data— *they concede as indeed all of us who study SSA economies* ***should***— remains little more than crude estimates. Karmiloff, writing on Zambia, specifically complains about the inadequacies of the official data on manufacturing.

Second, the study's conclusions challenge a number of assumptions commonly made about African development and its prospects (Riddell 1990: p x). While the analysis neither diminishes the seriousness of Africa's development crisis (as covered by, for instance, the 1981 *Berg Report*) nor maintains that expansion and promotion of the manufacturing sector provide "the" solution, it does suggest that underplaying the role of industry has been a mistake. Riddell (ibid) argues for example that:

"The failure to integrate medium and longer-term objectives of development with policies to address short-term problems has concealed the role that manufacturing is likely to be called upon to play with increasing prominence as the 1990s proceed. What is more, in a number of countries competitive and far from weak industrial enterprises have been established and these— and the whole future of manufacturing in SSA— could be under threat if short-term market-dominated policies commonly associated with the World Bank's structural adjustment policies dictate the pattern and structure of future development".

Finally, the study argues that the future prosperity of SSA is likely to be enhanced by a new three-pronged approach to industrialisation. It argues that policies to promote the expansion of non-traditional manufactured exports *and* a more systematic approach to further import substitution need to be vigorously implemented— not in isolation but in conjunction with policies which seek to raise the efficiency of existing manufacturing enterprises. It sees the inflow of private foreign investment as a critical component of the three-pronged approach.

A careful examination of the above three-pronged approach should reveal that it does not differ markedly— if at all— from the six-pronged approach of the World Bank's 1984 *Joint Programme of Action* (JPA) Report as discussed earlier in this chapter. The World Bank's 1989 *Long-Term Perspective Study* (LTPS) also dwelt at some length on the issue of— and need for— efficiency. So that to that extent alone the three-pronged approach is nothing new. Having said that, we would not be surprised if future researchers refer to "*MANUFACTURING AFRICA*" as being to African industry and industrialisation as eye-opening as the 1981 *Berg Report* was instrumental in highlighting the structural and policy inadequacies of SSA economies overall— as well as being a catalyst for increased attention to Africa within the donor community. "*MANUFACTURING AFRICA*" is that useful.

2.2 **Review of literature on Zambia's SAP: macro and micro/manufacturing sector levels**

Of the Economic Recovery Programme (ERP) measures announced in 1989 Akashambatwa M Lewanika (1989: p6)— who was later to become a Cabinet Minister under the Movement for Multiparty Democracy (MMD)— wrote:

"...the NERP's initial apparent nationalistic and radical development line aims at restructuring the economy in internal production balance and genuine development. Such a line can achieve this objective only if undertaken knowledgeably and militantly, by a well organised and strategically placed cadre of 'reds-and experts'. Not only this, but also accompanied by appropriate required finance and a democratic enabling environment. Without any of these conditions, the NERP may not only fail, but cause even greater damage than the insensitive and sectionalist IMF and World Bank programmes".

One thing surprises us regarding Lewanika's stance, a second does not. First, in his other writings he gives near-full marks to Zambia's 1988 nationalistic "Recovery from our own resources" programme which, as we shall point out in later chapters, coincided with good weather and favourable copper prices to record positive economic growth in 1988. His near-spurn of the Bank-Fund role, given not only his known desire to captain the Finance Ministry but also the by then already known realities of cross-conditionality and the absence in Zambia of that critical "own resource"— forex— is both surprising and disappointing. What does not surprise us is his call for, and belief in, a democratic enabling environment. He was the second MMD cabinet minister to quit his post in July 1992 because of what he alleged was the absence of democracy, tolerance and high moral standards in the MMD's modus operandi.

In a study of Zambian parastatals Stefanski (1987: p59) asserts— quite against his own evidence— that:

"...it seems to be a broad consensus among influential Zambian experts that radical restructuring of existing arrangements is not required, either through a return of parastatals to private hands or through a further shift to more radical solutions, involving more explicitly socialist practices in planning, management and labour relations. Instead, the calls are for readjustments within the Zambian status quo, primarily through changes in personnel attitudes or through further nationalisation of administrative structures and practices".

Such an assertion begs the obvious question of which "influential" Zambian experts he talked to. They certainly constitute an insignificant— perhaps mis-informed— minority outside the loop of main-stream Zambian intellectuals. Quite clearly, the opposite of his assertion is true. His assertion is the more surprising given his own evidence, on the same page, that:

"The total losses of the Zambia Industrial and Mining Corporation (ZIMCO) in financial year 1983-84 were over K80 million. It means that the performance of parastatals has been dramatically deteriorating in the eighties".

One of the major factors for making the case for radical changes in ZIMCO is that SOEs have been financial parasites on GRZ coffers. As we shall see while discussing the arguments for and against privatisation in chapter 6, the case for privatising some parastatals can be made. Our own position will be re-emphasised, however— that wholesale privatisation may not be the best option, given that some parastatals do indeed make profits and are quite efficient.

Understandable limitations on the length of our study mean that we have to be selective in what we write, indeed on what literature we can review. **In Zambia's case it might look as though we do not have much to say at this stage of our 11-chapter study. That clearly is not the case.** We have reviewed more literature on Zambia than is presented in this chapter— including work done by such other authors as Muzandu (1985), Seshamani and Samanta (1985), the World Bank (1986), Karmiloff (1988), Makgetla (1986), Harvey (1988b, 1991), Fundanga (1989), Kydd (1989), Turok (1989), Colclough (1988), Sanderson (1987, 1992), Seshamani (1990), Meijer (1990), Fardi (1991), Magande (1992), Musokotwane (1992), Muntemba (1992), and Kaunga (1992).

It is also important for us to note that most of the structural rigidities and policy orientations we discussed under the macro-international and micro-international levels— sections 2.1.1 and 2.1.2 of this chapter— do apply to Zambia as well.

Any study on Zambia's economy of the latter half of the 1980s would be remiss, for example, if it does not comment on the country's experience with foreign exchange auctioning which started in 1985 and ended in May 1987. Any study of the Zambian economic scene after 1991 would also be incomplete without offering an assessment of socio-economic and adjustment experiences under the new government— the Movement for Multi-party Democracy, MMD. We do both— more appropriately— in

chapter 5. The literature review on Zambia, suffice to say, continues in relevant sections of chapters 4, 5 and 6— to avoid unnecessary duplication with what is being said in chapter 2.

Since one of our main tasks in this chapter is to identify gaps in the above literature, we now move to the next section (2.3) to do just that.

2.3 **What the existing literature does not say**

The existing literature regarding Zambia's micro/manufacturing-level— about which we are most concerned— does assist us to understand and appreciate both its development and some of the long-standing structural rigidities. It would equally be naive for us to claim that the crux of Zambia's overall adjustment task— the need to reduce dependence on copper by diversifying into non-copper/non-traditional exports— is not already well-argued and documented.

The current literature however fails us in several important respects. It is rather silent on the overall impact of the SAP on manufacturing, especially in this case on the important question of what it will take for both visible (manufactured) and invisible (energy, services and tourism) non-traditional exports to replace copper in export earnings, given the already well-documented (forecasted) depletion of copper deposits by the first quarter of the 21st century. Among the more specific questions not addressed at this level are the following:

(a) What has been the performance of visible non-traditional exports in the late 1980s and early 1990s with regard to both: the number of exporters, and total export receipts? Development economists are not entirely at fault with regard to the paucity of literature on the performance of Zambia's non-traditional exports under structural adjustment. Ncube, Sakala and Ndulo (1987: p147) acknowledged during their conference presentation in Uppsala, Sweden, that as of 1987 there was no statistical information available on the performance of Zambia's non-traditional exports. But then this situation changed at the end of 1987— when the Export Board of Zambia (EBZ) carried out its first export audit. The EBZ has carried out 5 other such audits since that time.

Except for the work being done by Inutu Lukonga[7] at IDS, Sussex, for her PhD, there does not seem to be any systematic study and use of the useful EBZ data todate.

(b) What specific factors have impeded and/or assisted this performance? We would expect, for instance, the level of import dependence to affect capacity utilisation rates in an economy experiencing acute foreign exchange problems— as has been competently argued by other authors in this chapter. The question then becomes: what has been the trend in import dependence in the manufacturing sector from, say, the 64 percent in 1981 (see Seshamani 1987: p13)? Does this dependence differ by type of ownership (parastatal, multinational company, or private firm) or by type of sub-sector within the manufacturing sector? If so, can we account for the differences?

(c) What are the major foreign markets for Zambia's non-traditional products? Are the markets diversified enough to cushion the country against the obvious dangers of captivity to a narrow foreign market base?

(d) Most importantly, perhaps, the existing literature is silent on the percentage growth needed from non-traditional exports in order to replace copper by, say, the year 2000 or 2010— when as we saw in chapter 1 the Nchanga Open Pit mine and the Tailings Leach plant, the largest in the country, is expected to close. Four other large copper mines— Luanshya and Baluba, Konkola, Mufulira, and Nkana— are expected to last until the year 2010 (News from Zambia, 6 June-8 July 1992). This overall question can be further broken down into how long it will take, and at what number of exporters and export growth rate, for visible non-traditional exports alone to replace copper.

The above questions are critical, answers to which should shed more light on the extent of Zambia's adjustment task.

Any attempt at manufacturing transformation, at meeting the targets raised by answers to our knowledge gaps above has to recognise and contend with several factors— national and international, controllable and uncontrollable. What are some of these factors? It is our intention, in

this study, to attempt to answer all these vital questions. It is without doubt one of the major areas where we expect the study to make a useful contribution to current knowledge about the impact of SAPs at the manufacturing sector level.

It is clear, from our review of the literature in sections 2.1 and 2.2, that caution has to be exercised on whether SAPs can actually deliver what the conditionality theories say they can. As a qualification we turn, in the next section, to the question of why this is so. In so doing, the contention is that we need to be a bit more humble about what we can expect SAPs to achieve in the short term.

2.4 **Given the rather indecisive evidence seen earlier in this chapter on whether SAPs work, the question arises, if not why not?**[8]

Killick (1992a: p7) starts off the debate on this relevant question, suggesting that a hostile global environment; more or less technical considerations relating to the design of economic policy packages; and matters relating to relationships between aid agencies and recipient governments may be chiefly responsible. He elaborates the last two points as follows:

2.4.1 **Technical considerations:** on this issue Killick points out that the design of policy packages to foster economic growth is no simple matter. There are many trade-offs in making policy in this area, posing difficult choices. There are also many complexities: economic policies should be viewed as a system, and complicated interactions occur between policy and target variables (including time-lags between policy decisions and their effects), with the indirect effects of measures often quite different from their direct impacts. The construction of adjustment programmes, in other words, is a difficult, complex business. Another area of difficulty that he highlights relates to the reconciliation of the demand-management approach of IMF stabilisation programmes and the supply-oriented thrust of Bank structural adjustment programmes. He argues that:

"There's a danger that IMF-type programmes which envisage large reductions in imports will erode export supply responses, to say nothing

of the costs imposed by way of output foregone...To put the case in more general terms, tensions can arise between demand-management and supply-oriented programmes as a result of differences in the requirements for programme success in respect of (a) import levels, (b) volumes and terms of domestic credit and, (c) government expenditures on economic services and/or capital formation...an implication of this is that the two International Finance Institutions (IFIs) may sometimes give differing advice to governments".

Killick is in agreement with Abbey (1991: p523), who points out that those caught in the middle of Bank and Fund advice are not amused by such disagreements, particularly when there are legitimate policy conflicts to be resolved. Our latest information on this issue— see Bird and Killick (ODI 1993)— is that it appears that top Bank and Fund management agreements on the division of labour and staff co-operation have substantially resolved these difficulties: borrowing governments are less likely to be bewildered by conflicting "advice" from the two institutions, rather they are more likely to feel confronted by a Washington monolith.

2.4.2 **Donor-recipient relations:** Killick (ibid) believes the danger here is that the very fact of conditionality, and the nature of the donor-recipient relationship which it implies, will undermine programme effectiveness:

"Much hinges on the extent to which there's genuine agreement between the IFIs and the government in question about the desirability of the programme and its provisions...One source of difficulty here may be a *mis-match of values and objectives*...The IFIs have to satisfy their major shareholders, who often take a lively interest in what loans are made to whom and for what, and who sometimes seek to use their influence on the IFI Boards to promote their own foreign policy and/or commercial interests. The IFIs see their loans to any one country in the context of a far larger set of lending activities, so that decisions about policy changes in one country are influenced by what is being done elsewhere...Governments and Ministers, on the other hand, are supposed to concentrate on promoting the national interest. Additionally or alternatively, they may have other worries: how to win (or avoid!) an election, how to keep the army happy, how to reward supporters and deal with the opposition".

In short, he maintains that government and IFI objectives may not match up and this may lead to disagreement about policies. Killick and Malik (1991: p35) point out that where adversarial relationships between governments and the Fund exist, they are likely to contribute to non-implementation of policy conditions, resulting in ineffectual programmes.

In a related discussion Susan George (1988: p5) puts the shareholder's stake as argued by Killick (ibid) in refreshing perspective:

"when I started out, I thought the IMF was financial public enemy number one. I don't now. It may be the most visible, but its role is largely to take the heat off other actors in the system. Tips of icebergs can absorb quite a lot of heat".

2.4.3 **Exogenous determinants:** Killick and Malik (1991: p33) further argue that there is evidence that both the gravity of the initial situation and the intrusion of external and other unforeseen shocks are major reasons for programme failure. This, they believe, is partly because of the great vulnerability of many of the economies in question. Programme break-down is associated with particularly adverse terms of trade experiences (ibid).

2.4.4 **The "ownership of SAPs" question:** Berg (1991: p217) enters the debate by suggesting that political and bureaucratic consensus is even more uncommon:

"Agreements negotiated and signed by ministers of finance or planning are implemented by sectoral ministries. Sometimes these ministries are only perfunctorily consulted; often they are in deep disagreement with the spirit and particulars of the reform programme".

He indicates another difficulty: that conditionality gives the impression that programmes are being imposed upon a reluctant government even when they may not be. Such a public perception, he argues, may undermine the legitimacy of the programme and therefore the likelihood that it will be successfully implemented and sustained. Even where that does not occur, extensive IFI determination of the content of a programme will weaken what the Bank calls the government's sense of "ownership" of the programme, which may well be the most important determinant of its success. Such circumstances, concludes Killick (ibid), are liable to throw up programmes which governments do not regard as their own and which, therefore, they will implement only the inescapable minimum.

The World Bank (1988: p6) is not unaware of this problem, pointing out that a key determinant of sustainability is the programme's

appropriateness for a particular country. It argues that the government's commitment to and ownership of the programme and some degree of popular support for its implementation are critical.

Although the 21-23 March 1992 national conference on Zambia's SAP cheered Professor Killick for its lack of Bank-Fund-bashing and rancour that he said have characterised many such conferences world-wide, participants did voice the strong suspicion that the 1992 Policy Framework Paper (PFP) and part of the budget were actually decided and typed in Washington, with Finance Minister Emmanuel Kasonde's role being simply to make-believe they were both entirely Zambian initiatives. This kind of perception may invite a half-hearted effort on the part of implementers of the programme, who may not identify with it.

2.4.5 **Infrastructural inadequacies:** as expected, the Bank and Fund do offer explanations for the less than optimal SAP results. The World Bank (1988: p3) argues that the supply response to adjustment in SSA has been slow because of the legacy of deep-seated structural problems. The Bank admits that inadequate infrastructure, poorly developed markets, rudimentary industrial sectors, and severe institutional and managerial weaknesses in the public and private sectors have proved unexpectedly serious as constraints to better performance in SSA.

2.4.6 **Policy sustainability and financing adequacy:** the Bank (ibid) further admits that the speed of the supply response determines sustainability:

"A strong export response helped the continuation of reforms in Turkey. By contrast, policy reversals in Zambia resulted partly from the lags in export growth. The supply response also depends on greater institutionalisation of reforms, thereby strengthening their credibility to investors. Also, complementary reforms to reduce internal regulations and factor market rigidities are sometimes essential for a stronger supply response".

On the question of financing, the Bank's view is that financing and sustainability of adjustment programmes are mutually reinforcing, citing inadequate funding as part of the reason for the policy reversal in Zambia while Ghana's effort has been helped by the availability of finance.

2.4.7 **Severe behavioural and attitudinal changes implicit in SAPs:** Henley (1992) makes the useful point that in addition to the more technical issues of SAPs argued in the literature, there are also the behavioural and attitudinal changes needed for SAP-success but which, in reality, take a long time to come about. The people of Africa, like every body else, are mostly conservative and slow to adjust. It is easy, Henley argues, to fly into a country and tell people to devalue their currency and then fly away. But there is the problem that the people left behind are the ones who have got to stay alive. They have to make all the painful adjustments. And the more marginal the economy is— as most SSA economies invariably are— the more the downside risk and resistance to the kind of attitudinal and behavioural changes SAPs take for granted but that are critical for success.

2.4.8 **Dilemmas of conditionality:** Stevens and Killick (1991: p6) offer what they consider to be 4 main dilemmas facing both donors and recipients when designing adjustment policies. A further reason why SAPs have not scored convincing successes, the 4 dilemmas are:

(a) The provisions derived from mainstream policy theory are sometimes an inappropriate technology, yet the donor community is constrained in making it more appropriate: the homogeneity of the Bank-Fund conditionality menu, despite the heterogeneity of recipient countries, reflects the fact that conditionality has become a key instrument for translating into LDC practice the policy recommendations of Western-based economists. This— Stevens and Killick argue— gives rise to a danger that conditionality may incorporate elements of "inappropriate technology", with the IFIs/donors facing intellectual, political and resource constraints in adapting this into more appropriate forms.

(b) closely related to the above argument is the one that the design of effective economic policies is a highly complex matter and heavily dependent on the specifics of the economy in question, yet there is a strong institutional imperative for off-the-peg solutions and standard recipes.

(c) The measures contained in conditionality agreements are undermined by their externally-driven nature, and the fact that they are usually undertaken in crisis conditions further reduces the likelihood of successful implementation.

(d) That adjustment, which is the objective of conditionality, is most needed where it is most difficult. On this issue the two authors argue that the capacity to adjust is a rising function of development— up to a point. It is particularly weak in LDCs. They offer this— plus the creditor countries' reluctance to provide the financing necessary for their policies to succeed— as major explanations for the weak adjustment experiences in SSA.

(e) **Political conditionality:** Riddell J B (1992: p61) points out another dilemma of conditionality: that the governments through which the Fund operates rarely represent all their inhabitants. Democracy, he says, is found in only a few countries in SSA, with the norm being some form of dictatorial rule by either the military or one-party leaders. The curious paradox is whereby the Fund requires a strong state in order to implement the SAP, while weakening the government through "political conditionality". We shall elaborate on this in chapter 4.

2.5 Chapter Conclusions

Our overall aim in this chapter was to find a niche for our study in the current body of knowledge about the impact of structural adjustment programmes at the micro-level in general, Zambia's manufacturing sector in particular.

The chapter started with a review of the World Bank's four most significant publications on SSA in the 1980s: the *Berg Report* of 1981, the *Progress Report* of 1983, the *JPA Report* of 1984, and the *LTPS Report* of 1989. This was done, among other things, in order to place in perspective the structural rigidities and adjustment challenges facing SSA countries, including Zambia.

Using the four Bank reports, we then went on to examine some of the independent views regarding the usefulness of SAPs. We did this under the useful but not fool-proof categorisation of various authors as either SAP-skeptics, Afro-pessimists, Afro-optimists/SAP-optimists, and Middle-grounders.

Although most of the literature review at the macro-international and micro-international levels does apply to Zambia's situation as well, the bulk of the written review on the country's SAP was left out[9] at this stage because it fits more appropriately in later chapters— principally chapters 4, 5 and 6.

Ultimately, we proposed that the current literature does not answer fully by far Zambia's most critical adjustment question: whether— and how long it might take— non-copper, non-traditional exports to replace copper in export earnings. Specifically, we noted that four important questions are either not addressed or inadequately so by the existing literature:

(a) What has been the performance of visible non-traditional exports with regard to both the number of exporters and total export receipts?, (b) What specific factors have impeded and/or assisted this performance?, (c) What are the major foreign markets for Zambia's non-traditional products?, and finally, (d) Given that most copper mines will close by the year 2010— see, among others, Kydd (1988: p115); Harvey (1991: p146); and News From Zambia (6 June-8 July 1992)— what percentage growth in non-traditional exports is needed in order to replace copper in export earnings?

Finally, the chapter attempted to show that the record on adjustment programmes indicates mixed results, prompting many authors— among them Malan (1991: p538)— to caution that there is no point yet in trying to reach a verdict on the evidence at hand. Malan insists that we need both more studies of individual countries— their successes and failures— and more comparative analysis that cuts across a wide range of experiences.

In trying to achieve our study goals as specified in chapter 1, and in trying to fill the knowledge gaps as proposed in this chapter, we are obliged to indicate how the data was both collected and analysed. Chapter 3, next, is devoted to a discussion of this methodology.

FOOTNOTES

1 These are by no means the only important World Bank publications in the 1980s, but they are by far the most visible with regard to SSA.

2 We borrow the definition of sustainable development used by Prendergast and Singer (eds) [1991: p xx]. For an economic system to be viable, it must at a minimum be capable of reproducing itself in the same form year after year. This means that the output of the system must be sufficient to provide the labour force with means of subsistence and replace all the inputs used in the process of production. For sustainable growth to be possible an economic system must be capable of reproducing itself with a surplus, which if invested may be used to expand the scale of the system.

3 Paul Collier (quoted in Satpathy 1991: p74) finds the 1989 LTPS Report comprehensive, consensual, and visionary.

4 This is the assessment made by Killick (1992c: p311).

5 Steel and Evans (1984: p1) for example point out that industrial development had, in general, been discouraged except where it formed part of the colonial pattern of trade— exporting primary products from the colonies in exchange for manufactures from Europe. The termination of political dependence led naturally to a concern with ending economic dependence as well.

6 As Meier, Steel and Carroll (1989: p7) point out, this strategy was consistent with economic development thinking at that time.

7 Miss Inutu Lukonga and I expect to complete Doctoral studies at the same time— April 1993. While her work has concentrated on demand and supply factors in the growth of NTEs in Zambia, mine has focussed on various aspects of the manufacturing sector, including privatisation. We have exchanged vital statistics since we re-newed acquaintances at the March 1992 national conference on SAP in Zambia. Our field-work schedules were also unconsciously identical. For example, we interviewed the Managing Director of Swarp Spinning Mills Limited in Ndola (see chapter 8) together, and exchanged notes afterwards. At the time of going to press, Inutu is happily awaiting immediate posting to the IMF in Washington— where she begins work on 1st May 1993— while the interest shown in me by the World Bank (see appendix 3.3A) is yet to translate into a concrete job offer after May 1993— when I told the Recruitment Division in Washington I would be ready to take up a post.

8 Killick (1992a: p7) asks and addresses this relevant question.

9 The literature on Zambia was reviewed at the same time, it is the actual writing and placement in different chapters that differ. It is important for us to make this clarification because, both ideally and in practice, one can only claim to notice gaps in current knowledge— as we claim in chapter 2— after a thorough examination of all the available literature.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Chapter Objectives

After reading this chapter, one should be able to know how the data for the study was both collected and analysed, including the justifications thereof. The chapter also discusses some apparent limitations of the methodology used in both collecting and analysing the data.

3.1 Methodology for macro - level data

3.1.1 Exploratory research: the research plan of action really started with exploratory research in Lusaka for 30 days during the month of August 1990. Although this preliminary activity was largely informal and imprecise, useful insights were gained that helped to refine and narrow the problem into a researchable one. This was achieved through interviews with : Mr Leonard Nkhata—Senior Permanent Secretary in the Ministry of Finance and National Commission for Development Planning NCDP); Dr Earle A S Taylor—Regional Director for the United Nations Industrial Development Organisation (UNIDO); Dr Jacob Mwanza—Deputy Secretary to the Zambian Cabinet; Dr Caleb Fundanga—Permanent Secretary at Cabinet Office; Mr Thakur—Senior Adviser to the Bank of Zambia Governor; Mr D Chitundu—Deputy Senior Director for Research at the Bank of Zambia; Dr Chungu Mwila and Mr Israel Dessalegne, both senior economists with the United Nations Development Programme (UNDP) mission in Lusaka; as well as visits to Lusaka offices of the World Bank, Swedish International Development Agency (SIDA), and the Finnish Embassy.

3.1.2 Primary data: 3-day national conference on Zambia's SAP held in Zambia, 21-23 March 1992: this author/researcher both organised and directed a 3-day national conference on Zambia's SAP, which was held at Hotel Edinburgh in Kitwe, Zambia. The first ever such conference, its principal aim and outcome was to encourage national debate on all aspects of the programme as well as to use it as a forum for gathering data

germane to this Doctoral Thesis. The conference was jointly supported by the United Nations Children's Fund (UNICEF), the Canada Fund, Bank of Zambia and several companies.

Appendices 3.1A to 3.1E specify the levels of support received from, among other places: the Office of The Zambian Vice-President Honourable Levy Mwanawasa, MP (appendix 3.1A); Mr Deb Basuthakur, Managing Director of Lonrho Zambia Limited (appendix 3.1B); Mr A L Morantz, the Canadian High Commissioner to Zambia (appendix 3.1C, 3 pages); Mr Ian G Hopwood for UNICEF (appendix 3.1D); and the Bank of Zambia (appendix 3.1E).

The need for the conference also arose from this author's contention that only two voices have hitherto been heard on matters relating to economic measures: that of the Zambian government, and that of the donor community. The voice of the business community on policy and direction of SAPs has conspicuously, and consistently, been missing. There was a desire, therefore, to see to what extent this "triad-consensus" was missing and could begin to be corrected, however humble the latter effort might prove. The World Bank (1989d: p193) is more succinct on the need for this policy dialogue:

"Within most African countries policy makers have been reluctant to allow open discussion of economic policy issues. This is a mistake. Broad and vigorous debate on what has gone right and what has gone wrong since independence is vital if options are to be understood and consensus achieved about future policy directions. This debate needs to be encouraged in the media, in the Universities, and in open workshops. It is a precondition for building a genuine and broadly based commitment to a future development strategy".

The conference, which attracted a total of 90 national and international participants, was in part a response to this Bank challenge. Specific objectives of the conference were the following (see appendix 3.2, the full conference programme):

(a) Reviewing and discussing the nature, and origins, of the present structural crisis facing Zambia, (b) Assessing the successes and failures of Zambia's 1983-93 Structural Adjustment decade, (c) Assessing the role of the IMF, World Bank and the rest of the donor community in Zambia's

adjustment efforts, (d) Determining the impact of SAP on the key sectors of the economy, principally manufacturing, agriculture, and tourism, (e) Identifying the Social Costs of SAP along with past, present, and future ways of mitigating these, (f) Assessing the role of future SAPs in Zambia, including prospects for the country's economic recovery, (g) Formulating questions of high priority for further enquiry, and (h) Reinforcing the need, and argument for, close GRZ-industry consultation over economic matters in general; the components, pace, and direction of structural adjustment in particular. Finally, the conference was also used to raise money to sustain the 4-month research on the manufacturing sector.

Appendices 3.3A to 3.3E are selected independent reviews on the success of the Kitwe conference. They were made by Mr John Innes of the World Bank (appendix 3.3A); Mr Murray L Sanderson of Lutanda Limited (appendix 3.3B); Mrs Carolyn Jenkins of the University of Natal in South Africa (appendix 3.3C); Mr Ben Turok of the Institute for African Alternatives in South Africa (appendix 3.3D); and Mr Paul D B Munungwe, then Chairman of the Technical Committee on Privatisation in the Ministry of Commerce, Trade and Industry.

We use the term *manufacturing sector* constantly in this study. Clarification of the context in which we do so is now in order. According to Chandra (1992: p4), the composition of an economy is measured by broad groups of activity using the International Standard Industrial Classification of all economic activities, ISIC. The main ISIC groups are: 1 = Agriculture, fisheries, forestry; 2 = Mining and quarrying; 3 = Manufacturing; 4 = Utilities; 5 = Construction; 6 = Wholesale, retail, restaurants and hotels; 7 = Transport and communications; 8 = Finance, insurance and real estate; 9 = Community and personal services; 10 = Activities not elsewhere classified.

Industry is usually taken to mean economic activities covered by ISIC groups 2, 3, and 4. Manufacturing is a sub-group within the industry category. It refers to activities that transform or combine materials into new products to make them more valuable (manufacturing value-added,

MVA). It includes both factory and non-factory-based activities (ibid: p6). Unless otherwise stated, this study identifies manufacturing in the sense in which it situates in this broader ISIC context, that is it is not synonymous with industry.

During the field trip, interviews were secured with, among others, the Vice-President Mr Levy Mwanawasa (on 1 May 1992 at Government House); Mr John Innes—World Bank resident representative in Zambia; Mr John Hill—new IMF resident representative in Zambia; messrs Paul Munungwe and S C Mwamba—Chairman and Vice-Chairman, respectively, of the Technical Committee on Privatisation; and various economists at Bank of Zambia, Export Board of Zambia, and the Ministry of Commerce, Trade and Industry in Lusaka. It is critical, in a research of this nature, to get a feel for the way trade associations view the economic measures put in place by the government. Messrs Theo Bull and Murray Sanderson, both senior members of the Zambia Confederation of Industries and Chambers of Commerce (ZACCI, the Zambian answer to the CBI, the Confederation of British Industry), were interviewed in pursuit of this objective. They also provided useful material that normally wouldn't have been obtained but for the good rapport established with both during and after the Kitwe conference.

3.1.3 **Data analysis :** review and analysis of available secondary data was the predominant method of achieving the macro-level objectives. Various GRZ publications were reviewed, as were those of the IMF, World Bank, UNIDO, UNDP, and other relevant national and international books and publications. Three analytical approaches were employed at this stage, namely:

(a) Actual-versus-Targets approach: in which macro-economic outcomes, such as the actual level of inflation, were compared against initial targets set out by the government,
(b) Content analysis: in which the data was systematically classified into themes and sub-themes, and
(c) Trend analysis: in which patterns of change in vital indicators, over the period, were identified and analysed.

3.2 **Methodology for micro - level data**

3.2.1 **Empirical research:** primary data collection (through fieldwork) in Zambia was the predominant method of achieving the micro objectives. A fieldwork trip was made to Zambia from 10 January to 6 May 1992. Broadly speaking, the *Survey and Case Study methods* (the former traditionally encompasses the Telephone, Mail, and Personal Interview) were the basic methodology for collecting the primary data. Whenever feasible and possible, available company documents [diaries, memoranda, letters, financial statements, operating manuals, committee minutes, and customer or client records] were also collected and analysed. Of the three survey methods, the personal interview was mostly utilised, although the data collection instrument (the questionnaire) was mailed in advance of the actual visit to respective companies. This arrangement gave respective top managements ample time to identify which of their functional area managers should handle what aspects of the questionnaire.

This author/researcher then made at least 6 visits, on average, to each of the companies that agreed to cooperate. In all, 15 Managing Directors, 21 General Managers, 7 Financial Controllers, 33 Chief Accountants, 10 Personnel Managers, 20 Marketing and Sales Managers, 20 Production Managers and 11 Purchasing managers were interviewed in the 43 companies shown in appendix 3.4. Quite obviously, these are the people most knowledgeable about what has been going on in their firms. Other lower ranking employees in various firms did make a useful contribution.

With one month and one quarter of the companies to go, this researcher hired 12 final-year Business students from the Copperbelt University in Kitwe as research assistants. These were all in the top 15 percent of their class. Their major task was to help complete—onto the financial annex of the questionnaire— and cross-check financial records provided by the various firms. 3 days were spent earlier in the field educating the students on the rudiments of conducting research. In early April 1992, the 12 students also assisted in the computation of various financial ratios. In the end, about K2,000 was paid to each assistant depending on the amount of work done.

Case studies: 4 companies were later identified from the preceding survey process and re-visited for in-depth examination. Chapter 8 deals with these. A major justification for the case study approach is that it tends to be comprehensive, and affords one the opportunity to describe and analyse the full richness and variety of events and issues in the organisation and department in question (Jankowicz 1991: p164).

Justification for use of the personal interview method : although potentially the most expensive, this method was used because of the following advantages it offered over mail or telephone: (i) complexity of subject: the subject of structural adjustment does not lend itself to easy comprehension, neither does that of Business Strategy. In the latter, there is an understandable tendency among managers to confuse strategy with objective, and vice-versa. One often comes across managers, for example, who point to diversification as an objective, when clearly it is not. It is a strategy, a means to some specific end that top management has in mind. The need for cross-consultation, reducing mis-understanding, and flexibility, therefore, precluded the use of mail or telephone. (ii) reduction in non-response/missing values: in this survey, as indeed in almost any other, it was critical to minimise the incidence of missing values and non-response. Both were detected during the interview. They were corrected immediately or, in the 18 cases where no access and response was possible at all, they were immediately replaced by other companies from the extra 30 to whom letters of introduction were sent earlier. The 18 included 4 multinational corporations (MNCs) that refused to give any data at all, citing "global policy not to divulge any information, no matter how worthy the cause"; 8 parastatals that were clearly terrified of the imminent privatisation and feared (in the researcher's view) that they would give themselves away; 3 firms that were not actually manufacturing concerns; and 3 that either were no longer in business or were too young to be of any value to the research.

One of these latter companies, for instance, only had records for one year. For reasons this researcher will never quite understand (personal hunches abound) 4 of the 8 non-responding parastatals had *warm-contacts*, that is people already known to the researcher. Three of the

firms (Kapiri Glass Company, Kabwe Industrial Fabrics and Supa Baking Company) included 4 former Copperbelt University classmates, all of whom are at senior management level.

3.2.2 Data collection instrument: primary data for micro objectives were collected using a structured, pre-coded questionnaire to ensure some uniformity in responses and therefore analysis (see appendix 3.5). A non-disguised questionnaire with open-ended, fixed-alternative, and demographic questions was prepared, aimed at the specific micro objectives. The fixed alternative questions were in the form of dichotomous questions; checklist questions; multiple-choice questions; and a ranking one. This was predominantly a **descriptive research design,** seeking not only further insights into the characteristics of the manufacturing sector based on our prior knowledge from the literature review and exploratory research, but more so determining the impact of SAP on the sector. Most of the questionnaire paused questions of the "what, when, where, why, how, how-many" type with regard to the operations of the firms.

Both questions of *fact* and *opinion* were raised. The financial annex of the questionnaire asked for time-series data for the 8 years from 1983 to 1990 (to which extent the study has attributes of longitudinality) while segmentation into the 6 sub-sectors of the manufacturing sector ensured cross-sectionality. Another important feature of the trip is that a good number of the firms were asked and did not object to interviews being voice-recorded. Tape-recording the interviews allowed the researcher to concentrate on listening and probing, so that spontaneity and flow were not interrupted. A further advantage is that Managing Directors and General Managers' own words were not lost, to which note-taking is often prone. Hand-written notes were still taken as a contingency measure.

<u>Pre-testing of questionnaire</u>: this was a final "dry run" of the entire survey ——the questionnaire, the interviews, the instructions, and the sampling method. This was done at three levels. First, faculty members in the department of Business Studies at Edinburgh University were asked to review the questionnaire, looking for things like improperly

asked questions, any evidence of leading questions, any order bias, and any other pertinent points. Second, copies of the questionnaire were sent to the Zambia Institute of Marketing (ZIM) through its National Board Chairman, Mr Julu Simuule of Refined Oil Products (ROP) Limited in Ndola, Zambia. Members of the Institute were asked to review the questionnaire, looking at similar concerns as in level 3, next. Third, a trial-run was conducted among 6 identical manufacturing companies in Kitwe (one from each sub-sector), to iron-out any fundamental problems in the instructions, terminology, and overall design. At this stage refinements to the questionnaire got it ready for field administration.

3.3 **Sample Design**

3.3.1 Sampling frame: for the micro objectives, the sampling frame was constructed from a combination of the 1987/88 Zambia Commercial and Industrial Directory, the 1988 list of exporters of non-traditional (non-copper) exports (both published by the Ministry of Commerce and Industry), and the 1989 edition of Export Board of Zambia's classified list of Zambian export companies. Together these publications list, inter alia, 340 companies in the agricultural and manufacturing sectors. **Our original sample of 60 firms would represent 17.6 percent of the sector, while the 43 responding firms would represent 12.6 percent of the sector.** The publications, unfortunately, are by no means comprehensive. There may be many more manufacturing concerns in Zambia than are listed. Seshamani and Samanta (1985) for example, put the total number of manufacturing companies in Zambia at 523 in 1965; 725 in 1975; and 539 in 1980. Under the circumstances, however, the three publications were the best that there was to go by, and they certainly sufficed.

3.3.2 Sample size: a sample size of 60 companies was randomly selected, from a stratified sample of the 6 main sub-sectors of the manufacturing sector. The selection was made in such a way that, on average, the selected companies represented at least 10 percent of the manufacturing total in each sub-sector, using the 1980 and 1990 estimates of 539 firms. The problem, of course, is that nobody, not even the Ministry that is supposed to know (Commerce, Trade and Industry) knows the exact

number of companies in each of the 6 sub-sectors. The sub-sectors being referred to are: (a) Agro, Food, Drink and Beverages sub-sector, (b) Chemicals, Plastics, and Petroleum Products sub-sector, (c) Wood and Paper products sub-sector, (d) Textile and Garments sub-sector, (e) Health-Care/Pharmaceuticals sub-sector, and (f) Metal and Machinery manufacturing sub-sector.

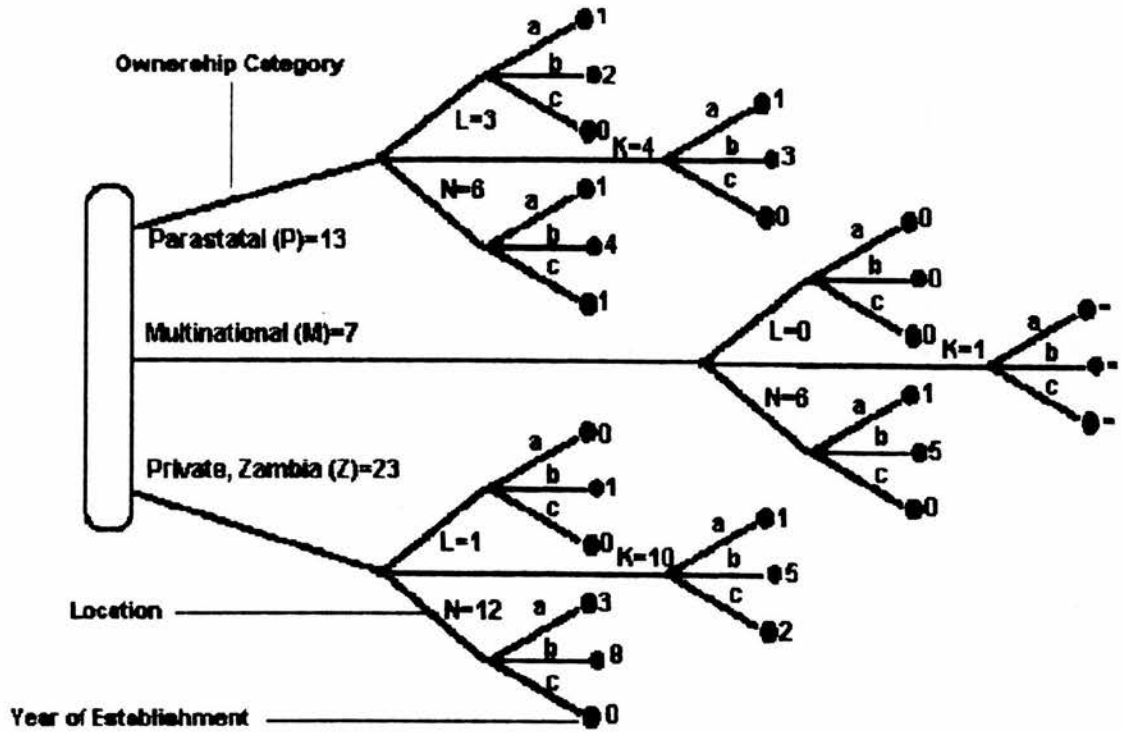
Comparisons and generalisations will be made in the results of chapters 7 and 8 based on this sample. This will be done with the utmost care, since the sample itself is not large. Only companies situated in the three biggest cities of Lusaka, Kitwe and Ndola constituted the sampling frame. Not only were the three cities chosen for the study because they constitute the core of Zambia's industrial activity— Seshamani and Samanta [ibid] estimate that the 3 cities were home to 85 percent of all manufacturing firms in both 1975 and 1980— they are also coincidentally the most convenient.

Letters of introduction were earlier sent to 90 companies from the researcher himself and his supervisor, Dr John S Henley. The 30 extra companies were a contingency measure, in case of drop-outs.

In the event, 43 successful interviews were held, representing a 72 percent response rate (from the original 60), with sub-sector representativity ranging from 5.2 percent for the agro-based, food and drinks sub-sector to 71.4 percent for the health-care sub-sector. Table 3.1 gives a complete breakdown of sub-sector ownership, response rates, and level of detail the 43 firms were willing to provide. Figure 3.1 is a self-explanatory Tree diagram showing the 43 firms by ownership category, location, and year of establishment. The Copperbelt towns, led by Kitwe and Ndola, account for about 55—65 percent of Zambia's manufacturing activity, with Lusaka taking up the bulk of the rest.

The under-representation of Lusaka in our survey (only 4 firms) is a reflection not of less manufacturing activity, but rather of the fact that the majority of firms that declined to participate are located there— showing, albeit unconvincingly, that firms located on the Copperbelt are

Figure 3.1 Tree Diagram showing the 43 surveyed firms by ownership, location, year of stablishment



Key:
L=Lusaka(4) a=Companies established before 1964 = 8 firms
K=Kitwe(15) b=Companies established between 1964-1982 = 28 firms
N=Ndola(24) c=Companies established during SAP period 1983-93 = 3 firms
Therefore: Ka=2; Kb=8; Kc=2; La=1; Lb=3; Lc=0; Na=5; Nb=17; and Nc=1.
Missing Values (-) for year of Establishment = 4 Companies, ie Kz=2; Km=1 and Nz=1.

more receptive (especially Ndola) to research of this nature than those in Lusaka.

TABLE 3.1 BREAK-DOWN OF THE 43 SURVEYED MANUFACTURING FIRMS BY: SUB-SECTOR, OWNERSHIP PATTERN, RESPONSE RATES, AND LEVEL OF DETAIL PROVIDED.

NAME OF SUB-SECTOR	NATION-WIDE TOTAL FIRMS*	TOTAL FIRMS SURVEYED	%AGE	OWNERSHIP PATTERN MNCS	PA	PZ	LEVEL OF DETAIL PROVIDED A	B	C	D
CHEMICALS, PLASTICS & PETROLEUM SECTOR--------	51	12	23.5%	2	4	6	11	1	0	0
WOOD & PAPER PRODUCTS------	29	4	13.8%	0	1	3	2	1	1	0
AGRO-FOOD & DRINKS---------	136	7	5.2%	0	5	2	5	1	0	1
TEXTILE & WEARING AP'------	31**	7	23.0%	1	0	6	4	3	0	0
HEALTH-CARE/PHARMAC--------	7	5	71.4%	3	0	2	3	2	0	0
METAL & MACHINERY----------	123	8	6.5%	1	3	4	4	3	0	1
TOTAL		**43**		**7**	**13**	**23**	**29**	**11**	**1**	**2**
TOTAL PERCENTAGE OF THE CURRENT SURVEY		**100%**		**16.3%**	**30.2%**	**53.5%**	**67%**	**26%**	**2%**	**5%**

KEY: MNCS : MULTINATIONAL CORPORATIONS; PA : PARASTATALS; PZ : PRIVATE, ZAMBIAN.
A : TOTAL NUMBER OF FIRMS IN EACH SUB-SECTOR WHO COMPLETED BOTH THE MAIN QUESTIONNAIRE AND THE FINANCIAL ANNEX.
B : TOTAL NUMBER IN EACH SUB-SECTOR WHO COMPLETED THE MAIN QUESTIONNAIRE ONLY.
C : TOTAL NUMBER IN EACH SUB-SECTOR WHO COMPLETED THE FINANCIAL ANNEX ONLY.
D : TOTAL NUMBER IN EACH SUB-SECTOR WHO PROVIDED PRINTED REPORTS ONLY.

NOTES:
* PROFESSOR V SESHAMANI'S STUDY [SEE SESHAMANI AND SAMANTA, 1985] IS THE MOST RECENT OF ANY LOCAL STUDIES WITH REGARD TO TOTAL MANUFACTURING FIRMS IN ZAMBIA, AT 539 IN 1980. UNIDO (1990b: P12) PROVIDE THE SAME FIGURE.
** THE EXPORT BOARD OF ZAMBIA'S 1992 UPDATE INDICATES A REDUCED NUMBER OF FIRMS IN THE TEXTILE AND WEARING APPAREL SUB-SECTOR, AT 31 MANUFACTURERS.

3.3.3 Sampling unit and sampling element: whereas the individual companies constituted the sampling units; Managing Directors, General Managers, and Functional-Area Managers were the core sampling elements.

3.3.4 Type of sample: heterogeneity in size, location and product portfolio characterises companies in Zambia's manufacturing sector. Splitting the manufacturing sector into strata or sub-sectors was done to enhance the representativeness— and therefore external validity— of the study. Therefore, a stratified random sample was used to select the 60 companies. This type of sample ensured that all attributes of the manufacturing sector were covered, that any special characteristics were

not missed. In this way, too, intra-industry (inter-subsector) comparisons would be made possible. Pieces of paper in 6 boxes with company names were used to make the actual selection in each sub-sector— that is, simple random sampling within each stratum or sub-sector.

3.3.5 Editing and coding: when the fieldwork was completed in May, editing and coding was done in June 1992. The 41 questionnaires (2 firms provided reports instead) were again checked for omissions, legibility, and consistency; the process having first been carried out at company premises (field editing) to ensure that all clarifications were made there and then. One firm in the Health Care sub-sector, for instance, had its financial annex discarded because the figures were clearly fictitious as they did not conform to generally accepted accounting principles (GAAP).

Rules for interpreting, categorising, recording and transferring the data into SPSS (coding) were then established to facilitate tabulation and analysis. A code book was then prepared, identifying each variable in the study and respective row and column positions in SPSS.

3.4 **Data analysis: the SWOT analytical framework:** evaluation of the performance of the manufacturing sector, along sub-sector lines, was systematically done by looking at the strengths, weaknesses, opportunities and threats (SWOT) of each sub-sector. It is perhaps the best technique for carrying out a position audit of each sub-sector because it not only addresses the current state of affairs (strengths and weaknesses) but also what is likely to happen or not happen in the future (threats and opportunities). SWOT helps us to stand back and look at each sub-sector with cold eyes. Identification of the strengths, weaknesses, opportunities and threats is aided by the analytical tools in sections 3.4.1 to 3.4.4.

3.4.1 Statistical analyses: SPSS-X and SuperCalc 5.1 Spreadsheet: SPSS was the main statistical package used to analyse the questionnaire responses. It was used to obtain mostly frequency counts and typical values or averages of mode and mean from data that was not only

quantitative but also nominal, ordinal and interval. The latter 3 are defined, respectively, as data that does not involve any rank ordering (for instance the colour red is not higher than green); data that is similar to nominal, but ranking is present (for example, cool is below hot on a temperature scale); and data that is similar to ordinal, but here we know by how much one number is bigger or smaller than another, also called numerical data. The Supercalc spreadsheet was used mainly as a conduit for data going into SPSS.

We should acknowledge one major failure with regard to the use of SPSS. The original intention, with regard to its use, was to attempt more than just simple frequencies and go into bivariate analysis involving, among other things, cross-tabulations. Seeing the nature of relationships between variables and between sub-sectors of Zambia's manufacturing sector would have been very rewarding. Using SPSS we wanted to test, for instance:

(a) Whether MNCs are more likely to open new markets under SAP than both SOEs and private Zambian companies. We would have used a chi-square test on it at a 5 percent or less level of significance.

(b) The importance of out-ward orientation by ownership category— in terms of new product development, new market development, or both.

(c) Whether exporting firms are less likely to experience working capital problems than firms not engaged in exports; and other related bi-variate relationships. The latter procedure, regrettably, was abandoned mid-way through when it became apparent that there was a dearth of necessary statistics as provided by the 43 firms, making it impossible to conform with the SPSS rules and guidelines for getting intelligent and meaningful results.

There were, most significantly, too many missing values, so that comparing say 2 MNCs with 7 SOEs and 16 privately owned firms and reporting the results as significant at 95 percent confidence level would have greatly compromised the integrity of this Thesis. The problem was equally with the number of firms involved as it was one to do with the many gaps in the level of statistical detail they were able to provide. The need therefore arose at this stage to avoid complicated and

impressive-looking statistical calculations that, at the end of the day, are not worth the paper they are printed on. In short, we had to adhere to the sensible warning by methodology experts that "good statistical analysis cannot cure bad data".
That being the case, we had to rely on the more humble but believable descriptive and analytical procedures. For example univariate analysis (seeing how many items of interest fell into each category, one variable at a time) was performed.

3.4.2 Time-series and cross-sectional analyses were also done involving data between 1983 and 1990, both within and across sub-sectors.

3.4.3 Content analysis: this was used mostly to analyse qualitative and textual data, by systematically classifying it into themes and sub-themes.

3.4.4 Financial ratio analysis: pit-falls of financial (ratio) analysis as contained in section 3.6.2 notwithstanding, financial statement analysis is considered an integral part of economic and financial decision processes. No assessment of the impact of SAP on manufacturing would be complete without looking at firms' hard figures as contained in their income statements, balance sheets, and statements of sources and uses of funds. Ratio analysis is therefore an important part of the analysis in chapters 7 and 8.

3.5 **Research cost:** the question then arises as to how all this (field-research) was financially possible. The combined total cost of both the national conference and the field research on manufacturing was £2,620 —equivalent to K641,900 using the April 1992 exchange rate of £1 to K245. Appendix 3.6 gives a complete break-down of how this money was both generated and utilised.

3.6 Limitations of the Methodology used

In recognising the limitations that follow— as well as those already given in chapter 1— this author is making the important point that this study is by no means the best thing since sliced bread.

3.6.1 **Sample representativity:**

(a) **By overall sector:** this study claims to be only fairly representative of the Zambian manufacturing sector. Any higher assessment is impossible in the absence of knowledge about the precise number of firms in the industry.

(b) **By sub-sector:** the sub-sectors used for the manufacturing sector are not entirely mutually exclusive: diversified portfolios entail significant presence by some firms in other sub-sectors, a situation by no means peculiar to Zambia alone.

(c) **Random sampling error:** this study has portrayed a fairly representative cross-section of the manufacturing sector. But then statisticians will argue that even with technically proper random probability samples, statistical errors will occur because of chance variation. Equally, for the many questions that solicited respondents' opinions there was no effective way of handling deliberate falsification by people probably wishing to boost their egos, avoid embarrassment, and so on. It was possible to detect such errors, however, with financial statements, as long as companies did not keep two sets of different statements, the true one their own and the other one for people like us. Not much can be done in the latter case.

(d) **External validity:** the lessons from the 4 case studies in Chapter 8, interesting as they may be, cannot be claimed to mirror those in the rest of their respective industries as most firms may be atypical in one sense or another.

3.6.2 **Special issues and pit-falls in Financial ratio analysis**

Before we discuss the pit-falls afflicting financial ratios, it is important to be clear at this stage as to what kind of ratios we shall be dealing with in both chapters 7 and 8 and why. They are grouped under 4 general headings according to the different economic aspects of a firm's operations as follows:

(a) **Profitability ratios:** these measure the earning ability of a firm. Profitability is the ability of the firm to generate earnings. It refers to the ability of a firm to generate revenues in excess of expenses; it concerns management's ability to control expenses and to earn a return on committed funds. It is the net result of a large number of policies and decisions chosen by an organisation's management. Profitability ratios indicate how effectively the total firm is being managed. Ratios that measure profitability usually consist of a profit element and one that represents the amount of funds invested in whatever aspect of the firm is of interest to the analyst.

(b) **Liquidity or Short-term Solvency ratios:** the liquidity of a firm is its ability to pay current liabilities as they come due (current liabilities are debts due within one year). The only funds available for payment of short term debt are either cash or other current assets readily convertible to cash. Consequently liquidity is measured by ratios that strike a relationship between current liabilities and selected current assets (Aragon 1982: pp28-30). The ratios measure a firm's ability to meet its current or short-term obligations. They may include ratios that measure the efficiency of the use of current assets. These obligations include any current liabilities, including currently maturing long-term debt. Current assets move through a normal cash cycle of Inventories—Sales—Accounts Receivable—Cash.

The firm then uses cash to pay off or reduce its current liabilities. Accordingly, attention is focused on the size of the firm's reservoir of liquid assets relative to its maturing liabilities. Liquidity measures are believed to be of prime interest to short-term lenders such as banks and merchandise suppliers. The ability of an entity to maintain its short-term debt-paying ability is important to all users of financial statements. If the entity cannot maintain a short-term debt-paying ability, naturally it will not be able to maintain a long-term debt-paying ability, nor will it be able to satisfy its stockholders. Even an entity on a very profitable course will find itself bankrupt if it fails to meet its obligations to short-term creditors.

Liquidity considerations not on the face of the statements (Gibson and Frishkoff 1983: p187): a firm may have a better liquidity position than indicated by the face of the financial statements. Such would be the case under the following circumstances:

* Credit sources unused but available on short notice: unused bank credit lines would for example be a positive addition to liquidity.

* Liquidation of fixed assets: a firm may have some long-term assets that could be converted to cash quickly. This would add to the firm's liquidity. Extreme caution is advised if there is any reliance on long-term assets for liquidity. For one thing, the long-term assets are usually needed in operations. Secondly, even excess long-term assets may not be easily converted into cash in a short period of time. An exception may be investments, depending on the nature of these investments.

* Reduction of planned outlays such as capital expenditures.

(c) **Turnover or Activity or Efficiency ratios:** various aspects of the efficiency with which assets are utilised can be assessed from turnover ratios as well as from the previously examined profitability ratios. Activity ratios indicate how effectively a firm is using its resources, how effectively a firm's assets are managed. Examining the relationship between a **measure of sales** and **an asset account** is their purpose. By comparing revenues with the resources used to generate them, it is possible to establish an efficiency of operation. Attention in these ratios is focused on *specific* assets rather than on the overall efficiency of asset utilisation measured by the profitability ratios.

Efficiency ratios are of prime importance to executive management. The ratios allow top management to analyse above-or below-expected performance. Such ratios, over time, can alert management to fundamental changes in business activities, such as deterioration in productivity resulting from less efficient equipment. Efficiency ratios can also be used by top management as performance measurement relative to competitors or "peer" companies. In this regard, efficiency ratios can

also be of great value to investors trying to determine the fundamental soundness of the firm and as a way of anticipating changes in the firm's performance.

(d) **Debt or Leverage or Capital Structure or Borrowing Capacity or Long-term Solvency or Financial Structure ratios:** a company uses debt when it has no funds of its own and in order to reduce the amount of owners' investment required and thus increase the return on owners' investment. The use of debt, however, is a mixed blessing, because it introduces the risk of bankruptcy. Thus, the more debt a company has, the more financial risk it has. A company with relatively low levels of debt has flexibility, because it has unused borrowing power that can be tapped, for example, for expansion purposes. A company with relatively high levels of debt has little flexibility, because additional borrowing will be severely limited.

Debt of an entity carries two obligations, one to repay the principal and the other to pay interest during the period of time that the principal is owed. When analysing a firm's long-term debt-paying ability, it is necessary to determine the firm's ability to pay the principal and interest on debt. Because of the close relationship between the reported income and the ability of the firm to meet its long term obligations, a major emphasis when determining long-term debt-paying ability is on the entity's profitability.

In addition to analysing the profitability of the firm, the amount of debt in relation to the size of the firm should be analysed. This analysis indicates the amount of funds provided by outsiders in relation to those provided by owners of the firm. If a high proportion of the resources have been provided by outsiders, then this indicates that the risks of the business have been shifted to the outsiders. If a large proportion of debt is in the capital structure, then the risk of not meeting the principal or interest obligation is increased because the company may not generate adequate funds to meet these obligations.

Financial ratio analysis is fraught with the kind of issues and controversies that this Doctoral Thesis would do well to recognise but not attempt to resolve: such a task would be recipe for another PhD, in a field in which this author claims no particular expertise.

Financial ratios are not intended to provide definite answers. Their real value derives from the questions they provoke. In short, they are symptoms of the firm's economic condition intended to guide the analyst in his financial investigation (Baruch 1974: p34).

Diversified companies: the growth of corporate diversification in recent years warrants some comments on the special problems involved in the financial statement analysis of diversified companies——ones that experience rates of profitability, degrees of risk, and opportunities for growth *within* the company (ibid: p44). When this variation is substantial, any analysis concentrating on the aggregate data of the company is almost meaningless. Hence the need to disaggregate the financial results of diversified companies to homogeneous segments. The main problem, of course, concerns the allocation of common costs (for example administrative expenses) to the various segments. Such allocations would, to a large extent, be arbitrary and can even be manipulated by management to window-dress the performance of faltering segments. Also, the manner of preparing financial statements (especially in the case of most Zambian manufacturing companies that are our principal concern here) does not lend itself to easy segmentation and therefore attribution to particular products and/or strategic business units (SBUs).

Flows—of—Funds ratios: conventional liquidity indicators, such as the current and quick ratios, suffer from a major short-coming which stems from their static structure. Specifically, these ratios reflect the situation prevailing on the balance sheet date, thereby limiting consideration to the surplus of current assets over current liabilities at a point in time. However, the sufficiency of the liquid assets reservoir at a point in time reflects only one aspect of the solvency situation. Another, potentially more important, solvency aspect is the extent of matching between

periodic cash inflows and outflows. The maintenance of adequate liquidity (and, of course, solvency) obviously requires a close matching or synchronisation of cash flows. A general approach to solvency evaluation should therefore consider the relationship between cash inflows and outflows throughout the period, as well as the size of the existing liquid assets reservoir (ibid: p23). The way financial statements are prepared— at a single point in time— makes this task rather difficult.

3.6.3 Statistical issues in ratio analysis

(a) Financial statement analysis is generally based on the comparison of an observed ratio with a standard, such as industry mean. However, the information contained in such measures of industry central tendency is generally incomplete. The significance/seriousness of deviation of an observed ratio from the industry mean depends not only on the extent and direction of deviation but also on the *dispersion* and shape of the distribution of ratios from which the mean was calculated (ibid: p61). Such details may not be readily available in developing economies like Zambia's.

(b) Averaging ratios: ratios or percentages can be averaged in various ways. The hypothetical example below illustrates this:

	Firm A	Firm B
Net Income	K100	K200
Total assets	K1,000	K5,000
Return-on-Assets ratio	0.10	0.04

One way of averaging the two ratios above is to calculate the simple arithmetic mean [.10+.04]/2= 0.07. Alternatively, calculating a weighted average according to the different asset sizes gives: 1/6x.10 + 5/6x.04= 0.05. The latter average, 0.05, differs from 0.07 since it reflects the different sizes of the firms. No general prescription can be given regarding the choice between averages as the use of a specific weighting system will be dictated by the objectives of the analysis (ibid: p71).

(c) Interpretation of ratio changes: many ratios, mainly from the profitability and turnover categories, are used as performance indicators.

They are often required to be higher (or lower) than some standard or to reveal an increasing (or decreasing) trend. A possible pitfall in interpreting ratio changes is to attribute the change solely to the numerator or denominator of the ratio. In many real cases, the variables in the numerator and the denominator are correlated, which complicates the economic interpretation of ratio changes. For example, reducing personal selling and advertising expenditures may reduce sales and consequently operating profits.

3.6.4 Impact of Inflation

Financial analyses of third world industrial performance— Zambia's manufacturing sector in this case— unfortunately encounter a more significant obstacle: whether and how to account for usually high levels of inflation. Estimated at 120 percent in September 1991 and 225 percent in November 1992, these are Zambian inflation levels which, invariably, involve an upward trend in figures whatever the physical turnover, the efficiency of management, and so on. We shall say more about this in chapters 7 and 8.

Financial figures ought to face up to two further realities, namely:

(a) Figures of different dates, even if each was correct at its own date, are not comparable. To arrange them side by side is to invite false impressions.

(b) If a year's accounts contain figures found by adding or subtracting unlike units (for example a profit found by subtracting an old cost from a current revenue), then these figures are in a significant sense incorrect even at the date of the accounts (Baxter 1984: p38). To give better information to users, such figures ought to be made comparable by using an index; the immediate problem being what kind of index to use. Deflating the figures sounds a good idea, the problem being lack of knowledge about the *exact* levels of inflation applicable. For fixed and other assets, revaluation sounds like a decent idea, except one runs immediately into crucial problems of who should do the revaluation and whether to use market price versus personal assessments of worth-whileness.

Whatever one may attempt to do, therefore, in time-series and cross-sectional analysis the foregoing problems afflicting ratio analysis are *never* completely resolved.

3.7 **Chapter Conclusions.**

The overall approach to tackling the research problem involved the use of combined research designs (exploratory research, in August 1990, followed 14 months later by a national conference and a descriptive design through fieldwork) as well as use of combined research methods (survey, case studies, longitudinality, cross-sectionality, and aspects of observationality). The emerging term for such a combination is called *methodological triangulation* (Thorpe R, et al, 1991: p133; Jankowicz, 1991). Data were analysed using 3 main analytical techniques (content analysis, the actual-versus-targets approach, and the SWOT analysis), while the really basic statistical analysis was done using both SPSS-X and the SuperCalc 5.1 Spreadsheet.

As in many other such studies, both secondary and primary data were collected and analysed. It might also become apparent, reading through the 11 chapters of this Thesis, that the author has an appreciable understanding and appreciation of the workings of the Zambian economy: 16 of his **12** post-teenage years have been spent there.

Chapter 4, discussed next, looks at the goals and conditionality debates of structural adjustment programmes, both of which are essential to understanding the rest of this Thesis.

CHAPTER 4: STRUCTURAL ADJUSTMENT: GOALS AND CONDITIONALITY

4.0 Chapter Objectives

In this chapter, we have a two-fold agenda. First we outline the major goals of structural adjustment programmes, including criteria for measuring their achievement. This is useful because our study needs to address the "why" of structural adjustment programmes at this point.

We shall then clarify the key concept of conditionality and discuss its elements, dimensions, layers, criticisms and defences. The need to define conditionality is self-evident. Secondly, there may be some confusion with regard to the distinction between dimensions, layers and elements of conditionality. We shall attempt to lessen this by discussing what each constitutes. By its very nature conditionality— which comes from conditions— means that not all the players involved with these conditions may be happy. By discussing some of the major criticisms and defences of conditionality, our aim will be to point out some of the sources of this un-happiness.

4.1 **Overview of the goals of structural adjustment programmes**

There is considerable controversy in the literature, as we shall see shortly, regarding criteria for assessing SAPs. There is considerable consensus however, regarding the general goals of structural adjustment programmes. Some of the most important goals as usually cited as:

(a) Encouraging non-traditional exports: in Zambia's case, copper constitutes the major traditional export. Non-traditional exports are therefore all other non-copper exports of both primary and manufactured (visible) products, and services such as tourism and energy. Under structural adjustment, diversification of Zambia's export base would normally fall under the World Bank's "policy-based" lending— which aims to strengthen recipients' external payments positions and to accelerate development.

(b) Reduction or elimination of balance of payments (BOP) deficits. The aim here is to get the economy to produce and sell more than it imports— a positive trade balance— as a necessary pre-condition towards reducing the overall balance of payments.

(c) Achievement of structural changes that would prevent future payments and stabilisation problems, thereby making the economy less vulnerable to future shocks. In Zambia's case, this means broadening the productive and export bases beyond copper is aimed at lessening the impact of an un-expected copper price shock, a sudden drop in the price of copper which is externally determined.

(d) Switch production from non-tradables to tradables (Please, 1992). Woodward (1992: p289) defines non-tradables as goods which cannot be exported or imported internationally from or to a particular market for economic, practical, or administrative reasons— such as national or international trade regulations, inadequate transport infrastructure, or perishable nature of the product. A major goal of adjustment is to try to encourage producers to produce more tradable and less non-tradable goods, and consumers to consume less tradable and more non-tradable goods so as to strengthen the BOP. This switch is considered desirable in most Sub-Sahara African (SSA) countries because of the anti-agricultural and anti-rural sector bias of previous government policies, believed to be responsible for wide-spread under-utilisation of agricultural productive capacity. And as we shall see later, the most pervasive instrument for achieving the required switch in the structure of price and other such incentives is devaluation of local currencies.

(e) Improving efficiency in the use of resources by removing price distortions, opening up more competition, and dismantling administrative controls, or deregulation (World Bank 1988: p56) is another objective. Structural adjustment loans (SALs) of the World Bank, for example, have generally supported programmes to increase domestic resource mobilisation and increase efficiency (McCleary 1991: p198).

(f) A reduction in the rate of inflation, reductions in the level of unemployment, and a manageable level of foreign debt are the remaining major objectives that characterise most macro-economic adjustment programmes. The new Zambian government, for example, had set an

inflation target of 45 percent for 1992 from 120 percent in 1991 (Price Waterhouse 1993: p5). At the sector or micro-level, Zambia's SAP has aimed at increasing industrial capacity utilisation rates; increasing outward orientation while reducing imports and import dependence; and increasing both inter-sectoral and intra-sectoral linkages. Last but not least it has been the aim of the government to encourage both an increase and an improvement in local resource utilisation.

The overall intention of all the above goals is to induce a higher and sustainable rate of economic growth in the country concerned. This is not surprising, considering that in almost all cases countries undertake Bank-Fund reforms because of stagnating, declining, or negative growth in their economies.

A quick look at the above reveals one important thing. There is some ambiguity, on the part of both the Bank and Fund, between what constitutes a *goal/objective* and a *strategy* as defined in chapter 1. Encouraging non-traditional exports, for example, is indicated as an objective, when in fact it is a strategy towards achieving the goal of economic growth.

In Zambia's case it would mean that simply increasing the number of non-traditional exporters constitutes success— because the "objective" of broadening the export base will have been achieved. But Zambia's main interest is to see that non-traditional exports do replace copper in export earnings by, say, the year 2000 and contribute to positive growth in the economy. The number of exporters and exportable products may grow, but that does not necessarily lead to a corresponding increase in total export receipts. Clarity between what constitutes an objective or goal and a strategy is therefore essential, because people have to be clear not only about what their targets/goals/objectives are, but also how to reach them (strategy). We shall return to this theme at the micro/manufacturing level when we deal with Monarch (Zambia) Ltd in chapter 8.

4.2 **Criteria for assessing the impact of SAPs**

There is considerable debate and controversy on precisely how SAPs

should be evaluated. It centres around the following:

4.2.1 **Before—After approach:** there are those who think the country's economic performance before the introduction of adjustment should be compared with its performance after the introduction of the programme. Such a methodology would be easy to apply, involving assessment of whether the programme was associated with an improvement over the initial situation. The problem with this school of thought, observes Killick (1992a: p3), is that there are numerous and varying time lags between policy changes and their effects; world economic conditions that impinge upon an economy's performance are not static; and finally that we do not know what policies would have been in place in the absence of the adjustment programme.

4.2.2 **Actual-versus-Targets approach:** the argument here is that the results of the programme should be compared to the targets set in the policy frame-work paper (PFP) and national budgets at the start of the programme. Killick (ibid) again contends that this can do no more than give us some pointers, for the additional reasons that the targets themselves may have been unrealistic, or arbitrary, or designed to achieve results by influencing expectations. Also, such quantified targets may be no better than the models which generate them in simulations, so that discrepancies between targets and actualities may be a result of poorly performing models rather than intrinsically unsatisfactory economic results (Killick, Malik and Manuel 1991: p6)

4.2.3 **With-versus-Without-programme approach:** this is also known as the control-group approach. Should the performance of economies with adjustment programmes be compared with a control group of non-programme countries? Alternatively, should programme results be compared with the counter-factual— what would have happened in the absence of the programme? Commander (1989) argues that simply contrasting the performance of economies with SAPs against those without such programmes indicates a diffuse and ambiguous set of outcomes, with Killick pointing out that the central difficulty is to select a control group that is truly comparable. Killick (1992a: p4) argues:

"The essential problem in programme assessment is that of the counter-factual: how can we judge what would have happened in the absence of the programme? There are other difficulties too: how to disentangle the effects of the programme from the effects of the credits provided in support of IFI programmes, and how to handle different degrees of programme implementation across countries? There's also the quandary of deciding the period over which a programme should be assessed: do we look simply at results during the programme, or over some longer period? It thus turns out that one of the limitations of adjustment packages is the difficulty of learning from experience".

A final problem with the counter-factual is its subjectivity. A lot of assumptions and judgments would be necessary, introducing yet more impossible-to-prove-and-resolve dilemmas.

4.3 **Conditionality : A Definition**

The vehicle which the Bank and Fund use as a means of achieving the goals of SAPs and therefore changing the economic policies of countries undertaking reforms— conditionality— is new neither in international finance, nor in human relations more generally (Mosley, Harrigan and Toye 1991: p65).

"Conditionality is simply a side condition designed to ensure the execution of a *Contract*. A contract is a promise by one party to do something now in exchange for a promise by the other party to do something else in the future. Since the borrower, in a loan contract, fulfils his part of the bargain later than the lender, he may be tempted to default on repayments. The lender needs a threat to discourage this. The threat normally employed by commercial banks is to require the borrower, as a condition of the loan being given, to pledge a capital asset such as a house or a piece of land, known as *collateral*; to the lender. If repayments fall into arrears, the borrower has a legal obligation to hand the asset over to the lender".

In international finance— the three authors point out— the problem of discouraging default remains, but the lender does not have the same range of threats available to him. A commercial bank, government or international agency such as the IMF cannot sue the government of, say Zambia in an international court of law if Zambia Consolidated Copper Mines (ZCCM) or indeed the government itself fails to repay a loan. Nor can it demand collateral in the form of physical assets. Three substitute alternatives are available (ibid: p66). The lender can refuse follow-on finance to all borrowers whose loans go into arrears. However the more hopeless a debtor's repayment possibilities become, the less potent a

threat this is as a means of extracting repayment on current debt. He can demand a government guarantee, but government guarantees are not always honoured.

The final possibility is that if there exist government policies which can reliably be expected to increase the likelihood of repayment of the loan, the lender may insist on the implementation of these policies, and suspend disbursement of the loan if the policies are not implemented. This is precisely the threat strategy employed by the IMF, which lends to governments for balance of payments (BOP) support, and which as a general rule requires borrowing governments to implement a package of macro-economic policy conditions which it believes will improve the balance of payments.

Killick (1990c: p11) on the other hand likes to think of conditionality as the policy strings attached to credits from both the Fund and the Bank, with the Bank's 1979 "policy-based" lending reflecting this orientation.

4.4 **Dimensions of Conditionality**

According to Killick (1984), conditionality can be broken down into:

4.4.1 **Pre-conditions:** policy measures that must be executed before an agreement is presented for approval by the Executive Board of the Fund.

4.4.2 **Performance criteria:** a country's ability to abide by the performance criteria of the Bank and Fund determines its continuing access to successive instalments of an agreed credit. Such criteria may include, for example, credit ceilings, devaluations, reductions in current payments arrears, and restrictions on new external debt.

4.4.3 **Other programme elements:** these are neither preconditions nor performance criteria and may include statements on the civil service, consumer goods subsidies, pricing policies, and the role of the parastatal sector.

4.5 **Layers of Conditionality**

Avramovic (1991: p628) distinguishes four layers of conditionality as now practised:

4.5.1 **Demand conditionality:** this was pioneered by the Fund through their monetary approach to the BOP. This focuses on cutting spending, primarily that of the government; currency devaluation; raising interest rates; and trade liberalisation.

4.5.2 **Supply conditionality:** pioneered by the Bank, this originally focused on project or micro formulation and implementation and dealing with pricing of products and services to be sold by the project and its management. This was then extended to cover sectors. Now, with the introduction of structural adjustment lending (in 1979), it extends to the entire economy. The centre of attention is the investment programme, system of incentives, pricing, financial liberalisation, and trade liberalisation.

4.5.3 **Growth conditionality:** in application during the last three years or so, Avramovic says this focuses on giving a free hand and incentives to the private sector of the economy, including privatisation of SOEs as much as possible, rationalisation of the rest, and again, trade liberalisation.

4.5.4 **Cross-conditionality:** this is the cumulative total of 4.5.1, 4.5.2, and 4.5.3. Here, lending decisions of each agency depend on the borrower having met the loan conditions of some other agency. This is now in increasing use, and it involves private as well as official lenders. The breakdown in arrangements between a borrowing country and any one of these agencies— in particular the Bank and Fund— can have a "domino effect" in relation with all other agencies.

The increasing, and changing, nature of conditionality has been coined as the **Christmas tree approach to conditionality.** Killick (1987: p27) points out that there has been a convergence of roles between the bank and Fund, whose effect has been a **conditionality explosion:**

"There's presently more policy conditionality around, it is more intense and it is of a wider range . The cause for this is the move of the Bank

into policy-related lending through SALs, and sectoral loans which carry similar conditions. In addition the Fund has increasingly added supply-side to the conventional demand-side conditionality. There has also been a movement in both institutions towards pre-conditions, for example in terms of exchange rate adjustments".

In the next section we outline the major elements of conditionality— or the major instruments usually associated with Bank and Fund programmes in an attempt to achieve the SAP goals we saw in section 4.1. It must be emphasised that our list of these instruments is by no means exhaustive.

4.6 **Major Elements or instruments of Conditionality**

4.6.1 **Exchange rate policy:** the exchange rate of a country's currency is its price relative to other currencies and affects the country's internal price level, the international competitiveness of its products and its level of economic activity. The manner in which a country's monetary authorities manage the exchange rate is therefore of crucial significance for various aspects of economic performance (SIDA 1989: p187).

Developing economies— and Africa's lead the pack— have consistently been faulted by the donor community for maintaining unrealistic exchange rates, commonly known as over-valued currencies. Evidence of this, they argue, is to be found partly in the difference between official nominal exchange rates and so-called parallel market exchange rates, or the ratio of the average black market exchange rate to the official rate. Exchange rate policy has attracted a huge debate in the literature, it is clearly beyond our scope here to join that debate. Among others Killick (1990a: p4) discusses the issue of "which exchange rate?".

Complaints of the donor community against exchange rate regimes in LDCs centre around the following areas (World Bank, 1981).

4.6.1.1 **Agriculture:** emphasising the leading role of agriculture in revitalising third world economies, the Bank holds over-valued exchange rates, and the absence of proper incentives, directly responsible for the sector's dismal performance. In Africa, for instance, farmers cannot be

paid enough to cover the costs of production, even though they grow crops in which countries concerned may have a strong comparative advantage.

4.6.1.2 **Exports:** the major criticism against over-valued exchange rates is that exports become unattractive on the world market, as they become more expensive while imports into the country become relatively cheaper.

4.6.1.3 **Distorted industrial development:** Killick (1990a: p2) points out that an over-valued exchange rate discourages national production of importables because the local-currency cost of imports will be kept artificially low. This bias, he argues, is likely to have serious consequences both for agriculture (as a producer of foodstuffs, as well as cash crops) and manufacturing (the chief import-substitution sector). He says these biases may be eased by the granting of protection, but— by restricting competition— this is likely to breed inefficiency and low productivity resource uses. In a small economy like Zambia's, his argument is that sustained industrialisation is incompatible with over-valuation. Moreover, the encouragement of imports (and discouragement of exports) tends to hasten the emergence of a foreign exchange constraint.

4.6.1.4 **Skewing income distribution:** another argument advanced by Killick (ibid) is that over-valued currencies tend to skew the distribution of income away from producers of tradables and in favour of service and non-tradable activities. This will frequently show up as a bias in favour of urban dwellers, discriminating against the rural economy where most of the poor usually live. Killick thus concludes that over-valuation of currencies can be detrimental to structural adaptation, biasing production and demand in ways which aggravate foreign exchange shortages and hamper the economy's ability to respond to these.

Against the above background, therefore, IMF conditionality has hinged on *devaluation* of local currencies as a remedy. The justification for devaluation is that foreign exchange would be allocated to those uses for which the economic return is the highest. Increasingly, devaluation has come to be viewed as the most vital policy instrument /conditionality for

encouraging exports— especially non-traditional exports. Devaluation weakens local currencies relative to other world currencies, with the intention that the devaluing country's exports should become cheaper (and therefore more attractive) on the international market, while imports into the devaluing country become more expensive and are therefore discouraged. Both Bank and Fund economists believe, according to The Economist (1990: p109) that an aggressive devaluation— a sharp rise in export revenues and the price of imports relative to non-traded goods— can boost output and improve the trade balance by: (a) encouraging consumers to purchase domestically produced goods rather than foreign ones, and (b) spurring businesses to shift production from non-tradables to tradables.

By making both exporting and import-saving activities more profitable, the bias against agricultural exports and import-saving food production would be reduced. But as Please (1992: p303) points out, two conditions ought to be satisfied for the switch to both occur and be effective. First, the higher local prices have to be passed through to farmers and firms in terms of the actual prices they receive for their output— especially against the legacy of administrative fiat in most SSA countries. Secondly, the immediate constraints in the short to medium term on increases in output from improved price incentives— such as inefficiencies in the marketing of inputs and outputs, transportation bottlenecks, non-availability of credit— have to be removed by appropriate changes in policies and programmes.

The choice of an appropriate exchange rate in respective LDCs, in the context of both general economics and SAPs, is a subject of intense debate, and is clearly outside our purview. Suffice to mention, though, that among the leading discussants on the issue are Kamya (1990a, 1990b), Harvey (1988a, 1988b), Independent Group of Economists (1988), Officer (1976), Gulhati, Bose and Atukorala (1985), and Wickham (1985).

4.6.2 Public sector restructuring and privatisation

Public sector is the generic term used to describe not only the

traditional government ministries and agencies, but more so government's participation in, and involvement with, parastatals— or state-owned enterprises, SOEs. In order to appreciate the nature of conditionality in this area, one has to seek a historical perspective.

Industrial and formal administrative activity in Africa during the late stage of the pre-independence era was characterised by insignificant— almost non-existent— indigenous participation. This area was the exclusive preserve of the expatriate communities. In a bid to indigenise control of their socio-economic destiny at independence the new African governments established a major presence by, inter alia, nationalising existing companies, which were almost invariably foreign-owned; and buying controlling shares in other industries where they did not take 100 percent ownership. By so doing the new governments wanted— to paraphrase former Zambian President Kaunda— "to afford our people more decent and equitable lives, the chance to take control of their destiny". The less political expectations were for the new-look public enterprises to assimilate significant numbers of employment-eligible Africans, to facilitate modernisation, as well as to enhance the development of skilled labour and managerial capability.

Several countries did indeed score significant successes in all stated directions. However as populations grew and general expectations among the citizens widened, the status quo could not be maintained. Significant problems began to emerge.

In responding to Africa's plea for development assistance to counter the overall economic crisis that has befallen the continent over the last two decades, the IMF and World Bank have pointed out the following shortcomings as directly attributable to the nature of the public sector in that continent. First, that public sector responsibilities and employment have become unmanageably large (World Bank, 1984). Effectiveness and efficiency have thus been gravely compromised especially in marketing (of crops and the full range of rural trade), transport, education and health, and manufacturing. Second, that the failure by governments to shed-off the "political role" of parastatals has meant an effective breeding ground

for inertia, and corruption. Parastatals, they argue, have been pressured to increase employment, to deliver outputs at low prices to key groups, and to shape investment decisions other than with economic and financial returns in view. Most of them have become financial burdens.

Third, managerial and technical capacities have not been sufficiently established, tending for the most part to be mirrored along government lines. Instead of encouraging it, parastatals have stifled individual initiative. Fourth, to the extent that African governments have a history of uniform, often-times massive, wage increases for both the civil service and the parastatal sector, this has contributed to rising inflation. Other criticisms of the public sector, including those of a more general nature, are presented in the discussion on privatisation given in chapter 6.

Armed with the above and other related criticisms, and against the backdrop of weakening third world economies, the Bank and Fund have inspired far-reaching public sector reforms in these LDCs.

Actual conditionality in this area has called for dramatic reductions in government involvement in the economy. The basic tenet, suffice to say, has been and continues to be *Privatisation* of parastatals and the efficiencies and economic returns such a mode of economic operation supposedly brings. Another argument for privatisation is that it will somehow restrain the government from "political meddling" in the enterprise once ownership changes hands (Rodrik 1990: p943). Yet another major argument for privatisation is that under the right economic environment, private ownership should improve both allocative and technical efficiency (Henley 1992). This is so because, going by the property-rights argument, people who have a majority stake in the business have incentives to run it efficiently, and will want to maximise profits and minimise wastages.

We shall return to discuss the main arguments for and against privatisation in chapter 6, as a prelude to the discussion on Zambia's privatisation programme. Finally, pruning of the civil service and a general wage freeze to help control inflation have also been high on the

conditionality menu.

4.6.3 Liberalisation and Commercialisation

Reusse (1987: p299) defines liberalisation as:

"The process of removing legal prohibitions to private trade in selected commodities and taking other actions aimed at facilitating the functioning of the private sector, with the objective of placing greater reliance on the market to allocate resources. In all countries, the state is always involved in setting the basic rules under which markets operate and in determining what may or may not be legitimately traded. In this sense, liberalisation is a process of redefining property rights, including the relative roles of the public and private sectors in the economy, not a process of simply "getting the state out of the market. In this sense it is a somewhat broader concept than privatisation".

Even though structural adjustment is a multifaceted process, liberalisation— or "market-oriented reforms"— has increasingly taken centre stage in IMF conditionality. Its major case rests on the arguments— in addition to those given for privatisation in chapter 6— that: (a) allocative efficiency can be improved by lifting controls in markets for commodities, credit, and foreign exchange (Rodrik 1990: p937); (b) it reduces monopoly power; (c) it increases the incentive to innovate and (d) that it leads to greater responsiveness to consumer needs.

Manifestations of Liberalisation

In summary, therefore, liberalisation entails the following:

* The adjustment/devaluation and/or floating of hitherto fixed exchange rates. The maintenance of a realistic exchange rate, along with other incentives and facilities for non-traditional exports, is supposed to produce a highly open but strong economy. In the context of export liberalisation Donges and Hiemenz (1991: p215) argue for instance that the way to adopt an outward orientation is to expose the domestic economy to international competition for the purpose of improving allocative efficiency, capturing economies of scale, managing risk through export diversification, and accelerating technological innovation. They argue that two tasks two conditions are useful for the success of an outward orientation strategy: the substitution of price signals for administrative

controls and the adjustment of domestic relative prices so that they conform to relative prices internationally.

* The decontrol of internal price systems as well as external and internal trade flows.
* Removal of legal restrictions on private entrepreneurship.
* Abolition of state enterprises and monopolies in both production and marketing.
* Reforming banking policy to redirect the flow of savings from the public to the private sector (Mamdani 1990: p430), including interest rate decontrol.
* Cutting the state budget, including the removal of all consumer subsidies and other social expenditures.
* Removal of import restrictions: this aspect of trade liberalisation is premised on over-protection of domestic industries being responsible for breeding inefficiency. The exposure of indigenous firms to competition is supposed to force them to improve their efficiency.
* Diversification into non-traditional exports to reduce instability in export earnings, and strengthening the incentive system for production and exports by removing distortions and rigidities.
* Reduction in money supply accompanied by a general public sector wage and salary freeze to control inflation.
* Divestment of hitherto statal or parastatal marketing operations.

The above litany of conditionalities may not be exhaustive, however it does shed more light on the thinking of the IMF and World Bank whenever the concept of liberalisation is mentioned during "consultative" meetings with would-be aid/loan recipients.

4.6.4 **Political conditionality**: increasingly conspicuous on the conditionality menu in the 1990s is political conditionality, defined by Moore (1993: p1) as the tying of official aid disbursements to the quality of government (or governance) that aid recipients provide. In the view of the World Bank (1989d: p60), history suggests that political legitimacy and consensus are a pre-condition for sustainable development. Underlying the litany of Africa's development problems, the Bank argues, is a crisis of governance. By governance is meant the exercise of

political power to manage a nation's affairs. Because countervailing power has been lacking— the Bank argues— state officials in many countries have served their own interests without fear of being called to account. This environment, concludes the Bank, cannot readily support a dynamic economy. Neither, in our opinion, is it wholly supportive of major Western interests in Africa, which are driven not surprisingly by trade considerations. Hence the current insistence by the donor community on democratic reforms as a pre-condition for further assistance to third world nations.

The insistence on democratic reforms is premised on three essential, interdependent elements (Moore and Scarritt 1990: p49). One is the presence of institutions and procedures through which citizens can express effective preferences about alternative policies and leaders. Second is the existence of institutionalised constraints on the exercise of power by the executive. Third is the guarantee of civil liberties to all citizens in their daily lives and in acts of political participation.

Why the current "rush" towards political conditionality? The Institute of Development Studies (IDS) devotes an entire volume— number 24 of January 1993— to a discussion of political conditionality and "good government". Edited by Mick Moore, the various contributors seem to agree that the current, unprecedented, wave of political conditionality has one major source: the collapse of the Soviet Block and of Communist rule throughout Eastern Europe and the former Soviet Union, which has put an end to the competition between East and West for influence in the third world (Moore 1993: p1).

The uses of aid need no longer be shaped by geo-political considerations and compromises. Stereo-typically, Moore argues, it is no longer necessary or possible to support what he calls nasty authoritarian regimes on the grounds that they are the only feasible alternative to local Communists and/or Soviet, Cuban or Chinese influence. Moore (ibid) argues:

"In this interpretation, it was Ministers in the more economically-liberal Western governments, buoyed up by a sense that the liberal-democratic model was sweeping to victory on the world stage, who took the initiative to create the "*good government*" agenda in the aid field, and thus to

stimulate further internal demands for political liberalisation within developing countries".

But as we shall see under the general criticisms of conditionality later in this chapter, there are grounds for caution— especially with regard to Africa— about the possible economic consequences of democratisation.

SAPs in general, conditionality in particular, have been criticised by many people on many fronts. The criticisms that follow, in addition to those indicated elsewhere in this study, are by no means exhaustive. Reference should also be made to the "SAP-Skeptics" and "Afro-Pessimists" sections of chapter 2.

4.7 **Criticisms of Conditionality**

4.7.1 **The "re-colonisation" controversy:** some writers seem to believe the Bank and Fund so dominate programme countries that their officials have become de facto finance ministers in certain countries, a view that reconstructs the name and reconstitutes the role of the IMF to that of the **"International Ministry of Finance"** (see Clark and Allison 1989: p22).

In their editorial comment, Lawrence and Seddon (1990) for instance make the assertion:

"It would appear that such is the dominance of these non-nationals, that the Fund and Bank are concerned that countries should "own" their SAPs, so that the populations of these countries do not turn against the programmes because they are the work of foreign institutions. The possibility that the EC is engaged ... in some re-construction of a Eurafrican empire should not be discounted. Certainly, the bringing of financial and economic pressures to bear on most African economies closely resembles the period before formal colonial rule, in which the colonising powers where such pressures were, used to allow the colonial powers to take over the running of indigenous economies".

Lawrence and Seddon further argue that this time the major world economic powers are coordinating the restructuring of the world economy through the media of the World Bank and the IMF and under the uncontested tutelage of the US.

Onimode (1988: p288) on the other hand argues that:

"The structural adjustment programme (SAP) or Economic Recovery Programme (ERP, as it is called in Ghana) of the IMF and World Bank most clearly represents the extent of the stifling control of African countries exercised by the Fund and Bank, as well as the greatest threat of imperialism's re-colonisation of Africa".

A more aggressive criticism of both the Bank and Fund is provided by Zeleza (1989: p35). He laments:

"It has been a raw deal for Africa. In exchange for puny loans, which are subsequently over-repaid, the IMF and World Bank, on behalf of their godfathers in the developed capitalist countries, have accorded themselves the right not only to supervise individual projects, but to manage whole economies entirely: approving their annual national budgets, foreign exchange budgets and fiscal and tariff policies; issuing clearance certificates before these countries can negotiate with other foreign agencies; and even posting representatives to their Central Banks and Ministries of Finance and Trade. As during the colonial era, it is Africa's masses who are paying the price with their sweat, tears and blood".

But such criticisms based on the notion of "re-colonisation" may be totally misplaced. There simply is no evidence to suggest that either the Bank or the Fund has any imperial interests in any African territory, even without considering that the ending of the cold war has recently began to radically change European interests in Africa. It would certainly seem, at the moment, that in geo-political terms Africa is of very minor interest to the West— certainly not for its territory, although it continues to be vital as a source of raw materials for Western factories and a market for Western goods.

4.7.2 **Financial sector liberalisation:** the argument here is that reduced governmental direction of credit and increased real interest rates has not always resulted in beneficial results (Helleiner 1991: p151). When undertaken crudely in the midst of macro-economic crises and widespread insolvency, Helleiner argues that such reforms may well drive more institutions, notably financial ones, into insolvency, breed increased concentration of private financial power (and frequent malpractice), and increase the macroeconomic problems.

4.7.3 **Interest rate reforms:** Helleiner further argues that recent interest rate reforms have created further grounds for doubt. In Ghana, Malawi,

and Tanzania, he points out, sharp increases in nominal interest rates generated the virtual disappearance of borrowers for a time, in addition to worsening impediments to the effective functioning of the productive system.

4.7.4 **Social costs of adjustment**

A legitimate point must be raised at this juncture as to whether conditionality has bettered or worsened the so-called human condition. Shepherd (1990: pp9-11) defines the human condition as a deterioration of the social conditions. He refers to eight basic human rights in terms of how these rights have been realised or denied for the poor— especially in African countries— under the impact of contemporary structural adjustment policies. The eight basic human rights are food, education, employment, shelter, health, clean environment, security of person, and democratic choice.

The need for assessing social costs of adjustment is perhaps self-evident. First, any country-specific adjustment process that is not carefully cognizant of serious social costs cannot in fact, in the end, be considered effective. Indeed the contention here is that treating the social dimensions of adjustment as a side issue— as opposed to a core one— dooms the process to failure. Second, if structural adjustment is about fostering economic growth and development, which it should be, then poverty reduction (a vital social dimension) must necessarily be both a fundamental objective as well as strategy. Ultimately as Cornia, Jolly and Stewart (1987: p3) point out:

"The call for a more people-sensitive approach to adjustment is more than a matter of economic good sense and political expediency. It rests on the ethic of human solidarity, of concern for others, of human response to human suffering."

What is meant by the twin issues of poverty and the poor? Absolute poverty is the inability to secure the minimum basic needs for human survival according to standards so low that they challenge the adequate comprehension of most members of industrial societies (World Bank 1989b:

p28).

In 1985 it was estimated that more than one billion (one thousand million) people in the developing world lived in absolute poverty, while other estimates put the figure at 800 million (World Bank 1990: p4; World Bank 1989b: p29). This condition was labelled by Robert McNamara (President of the World Bank, from 1968-81) as beneath any concept of human decency. The second notion of poverty, relative poverty, is variously identified as the lower 30 or 40 percent of the income distribution, the relatively poor may have barely secured the minimum basic needs, but have such limited resources that they lack the means of adequate social participation. They are effectively marginalised from mainstream society, even though they may constitute a majority of the population (World Bank 1989b: p29).

Descriptions of the poor abound. According to Shepherd (1990: pp7-11) more than 700 million people world-wide do not get enough food for an active and healthy life. Each year, he says, 40 million people die from hunger and hunger-related diseases, a situation Sherpherd says is equivalent to more than 300 jumbo jet crashes daily for a year, in which there are no survivors and in which half of the victims are children.

Although structural adjustment programmes have been in place in several countries for a number of years, recognition of, and concern for, their social costs did not arise on the part of the donor community until as late as 1987. As Loxley (1990) asks, did the IMF and the World Bank, in their concern for the weaknesses of macro policy, have to ignore for so long— until they were prodded by UNICEF— the impact their programmes were having on vulnerable groups and on long-term human resource development? (Please 1992: p291).

In December of 1987, the World Bank, the African Development Bank (ADB), and the United Nations Development Programme (UNDP) launched the Social Dimensions of Adjustment (SDA) project (World Bank 1989c: p111). The programme was aimed at providing support for the formulation and implementation of social action programmes targeted on the poor, as part of adjustment programmes. Preparation of poverty

profiles, identification of policy issues for the design of poverty-reduction strategies, and institutional development were the major targets of these programmes.

Ghana, the "blue-eyed boy" (though Africans rarely have blue eyes) or "star pupil" of both the World Bank and the IMF, was one of the first programme nations to prepare a social action programme, in late 1987. Called the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), this $90 million programme (Loxley 1990: p21) sought to help re-deploy laid-off workers, to create an ambitious public works programme, and to improve health care, nutrition, literacy, educational facilities, and water supplies.

Although twenty-six Sub-Saharan African countries had requested to participate in the SDA programme as of 30 June 1989 (World Bank, 1989c) and 30 as of December 1989 (Quarcoo 1990), criticisms regarding the attitude of both the Bank and Fund abound. Loxley (ibid: p21) has this to say:

"PAMSCAD represents a useful, albeit belated, effort to address social concerns. It is a sad reflection on Bank/Fund thinking that such considerations were not, and generally, still are not, built directly into adjustment programmes. Pamscad was tacked onto the end of the body of the reform package as a reluctant afterthought, under pressure from UNICEF and concerned bilateral donors... Nonetheless, it is a useful initiative which, hopefully, will be extended in the future to become an essential component of adjustment efforts. Donor support is reported to be enthusiastic but it remains to be seen whether the financing of PAMSCAD will represent a net addition to resource flows or simply a re-allocation of previous commitments".

Lawrence and Seddon (1990: p5) also argue that the apparent recognition of the social costs of adjustment by the Bank and Fund has not been translated into anything more than marginal alterations to the major package of economic and social reforms being widely imposed as a pre-condition for further loan agreements.

4.7.5 **Democracy wave— the hard-state, soft-state argument:** Killick (1992b: p36) articulates grounds for caution about the possible economic consequences of democratisation in Sub-Saharan Africa. He argues that

empirical research does not find any robust connection between democracy and high-quality economic policies any more than dictatorship is systematically associated with poor economic results. In their very useful contribution to the IDS publication on "good government" Healey, Ketley and Robinson (1993: p35) point out in the case of Zambia that whether broader awareness, the increased availability of information and greater societal pressures will result in "better" policy outputs is difficult to predict. They argue that the management of many sectional pressures by balancing the interests of one group against another and achieving some sort of consensus consistent with a workable policy under democratic rule is not a skill easily acquired— and that African bureaucracies and politicians have not had all that much practice in doing so in the past. They conclude that better economic management under multi-party politics is not guaranteed, that it has to be worked for and that, most importantly, it would be unwise to encourage excessive expectations at this stage.

Killick's argument is particularly relevant in the African context. The question to ask is whether hard-driven adjustment programmes in countries run by dictators are more coherent and successful than those undertaken under democratic conditions. The argument against the soft-state criterion is that consultation takes time and increases transaction costs (Henley 1992).

A person like President Daniel Arap Moi of Kenya could argue that in a multi-cultural society democracy leads to chaos. Zaire is another clear case in point, where so many parties can not agree on who should take over from President Mobutu. Hawthorn (1993: p24) refers to the competitive multi-party option in Zaire as something close to a license to disorder.

Rayner and Lattimore (1991: p123) argue in the case of New Zealand that implementing a liberalisation programme in a democratic system poses particular problems. When the electoral cycle is only three years long and the political parties are evenly balanced and oppose each other on most issues— as in New Zealand— these problems are considerably

exacerbated. In particular, they argue, the electorate has to be persuaded of the cost effectiveness of any substantial policy change within a very short time if the party pursuing reform is to remain in office— a major dilemma given that the benefits of reform take a long time to emerge.

Democracy, therefore, may not necessarily be a solution, it may in fact prove to be part of the problem. Some people may certainly argue that one reason the adjustment programme in Ghana has been more successful is because President Jerry Rawlings is more of a dictator than a democratic leader.

4.7.6 **"The ten-year itch"— timing and speed of adjustment:** yet another criticism emanates from the timing/duration of SAPs versus the stringency of measures expected to promote adjustment and growth. In a nutshell, most measures are short-term, yet adjustment is a long-term process. On this argument Helleiner (1983) reckons that the most important limitation of Fund analytical approaches to Africa's macroeconomic problems is probably neither its market bias nor its unconcern with the politically crucial distributional questions, but rather its inadequate consideration of SSA's limited capacity to adjust. The traditional instruments of money and credit restraint, devaluations, and liberalisation— all pursued within a fairly short period— cannot be expected to be as effective in the typical SSA country as elsewhere.

In Africa, Helleiner argues, the capacity for short-term adjustment is constrained by: (a) limited economic flexibility and limited short-term responsiveness to price incentives, (b) low and falling levels of per capita income and urban real wages, (c) limited technical and administrative proficiency within governmental economic policy-making institutions, and (d) fragile political support for many of today's governments. Commenting on this last point Killick, among others, argues that on the political front the speed with which the adjustment programme must be executed is likely to be a crucial factor in determining stability.

Where political support for the programme is weak, the concept of "IMF

riots" has come to symbolise such concerns. Adjustment measures— such as devaluations, removal of subsidies and general trade liberalisation— that are implemented at the same time may attract resentment from the general population. This is so because such measures tend to have more immediate negative consequences— such as raising the prices of staple foods— on the population. People may then take to the streets in what is generally known as IMF riots.

Arguing that economic and social development has to be both conceived and acted upon as a long-term process, Please (1992: p289) accuses the development community generally as suffering from a "ten-year itch". He notes that the development debate and the concerns of many donors were dominated during the 1970s by two five-letter words— "basic needs"; during the 1980s by two ten-letter words— "structural adjustment"; and as we entered the 1990s by two eleven-letter words— "sustainable development".

4.7.7 **The "prices right/devaluation" question:** Kamya (1984) questions the infatuation of the Fund with devaluation as a dominant across-the-board policy instrument for all reforming countries. He does this by listing the pre-conditions necessary for the success of devaluation— which he argues are absent in most LDCs most of the time— as being: (a) that the devaluing country must have abundant resources of traded and non-traded goods to be able to meet changes in foreign and domestic demand for domestically produced goods and services; (b) that the devaluing country's import content of exportables should be zero or very low; (c) the devaluing country should be generally free from imported inflation; (d) that the devaluation itself must be accompanied by strict fiscal and monetary discipline to curb the internal absorption and to offset adverse effects of devaluation on other government objectives such as price stability, economic growth and equitable distribution of income and, finally, that (e) devaluation assumes that the devaluing country maintains a fixed exchange rate system and a free market enterprise system.

4.7.8 **Design of programmes:** the World Bank (1988: p58) is aware that

Bank-Fund programmes have sometimes been criticised as inadequate. In the recipient countries, there is sometimes the perception that externally supported reforms are inflexible and that they adapt insufficiently to local conditions— economic and political. This perception has not changed.

Barely a day before we go to press, Graham Bird and Tony Killick (see ODI 1993) have just released results of their latest research on the usefulness of Fund approaches. They provide a fitting 4-point summary of the grounds on which the Fund's activities in developing countries have been criticised. They are (ibid: p1):

(a) That Fund programmes are inappropriate: its approach to policy is preoccupied with the control of demand, too little concerned with BOP weaknesses stemming from the productive system; and it imposes large costs on borrowing countries through losses of output and employment, by further impoverishing the poor, and through the politically destabilising effects of its policy stipulations.
(b) That the Fund's modes of operation and inflexibility in negotiations infringe the sovereignty of states and alienate governments from the measures they are supposed to implement; that there is an increasing overlap with the World Bank; and between them that they are apt to swamp governments with policy conditions.
(c) That its credits and programmes are too small, expensive and short-term for economies whose BOP problems are rooted in structural weaknesses and who often face declines in their terms of trade. The credits are also criticised for their short maturity periods and the near-commercial rates of interest which they often bear, and as being too small relative to financing needs.
(d) That the Fund is dominated by a few major industrial countries who pay little heed to developing country views. The industrial countries, it is alleged, use their control to promote their own interests.

Bird and Killick then go on to discuss what they term "new criticisms" of the Fund. Among these is the argument that the Fund's use of more supply side measures has been *additional to* its traditional demand-

control policies, not in substitution. They argue that the Fund has thus widened the range of its conditionality without diluting its monetarist hard core.

As expected, there has been no shortage of defences of conditionality. In the next section we outline some of these.

4.8 **In defence of Conditionality**

In the first place it will be useful to point out that the *principle* of conditionality has not, in fact, been a matter of intense dispute between the Fund and Bank on the one hand, and most critics on the other. The latter concede the Fund and Bank's right to safeguard the resources transferred to them by member governments. Killick (1990c: p11) contends— as does John Hill— the IMF resident representative in Zambia whom we interviewed in Lusaka in May 1992 — that although conditionality remains controversial and generates resentment from time to time, it is hard to deny that those who provide assistance can legitimately take an active interest in the design of the recipient country's policies. During our meeting in Lusaka Mr Hill argued:

"Conditionality is legitimate. You can't expect to borrow and use somebody else's money and not pay back".

Rather, it is the content of conditionality that is at issue, not the principle (Killick 1984: p185). Defences of conditionality by both the Fund, Bank and others abound, and they are not restricted to those that follow. Reference should also be made to the "SAP-Optimists" and "Afro-Optimists" sections of chapter 2.

4.8.1 **Conditionality has contributed to policy evolution in developing countries in at least 4 areas (Avramovic 1991: pp629-634):**

(a) **Fiscal discipline:** many problems facing LDCs — in their accounts, domestic inflation, administrative controls, price distortions, and insufficient investment— have their origin in the fiscal imbalance. In

countries suffering from hyper-inflation, monetary stabilisation may be a precondition for recovery of public revenue and thus for reconstruction of public finances generally. But monetary stabilisation will not be possible to sustain unless fiscal discipline is restored. The argument is that conditionality helps to bring about this discipline.

Moreover as Bird and Killick (ODI 1993) point out, the Fund has become more flexible, relying less on simple budgetary aggregates such as total spending or the budget balance and more on the "quality" of fiscal adjustment. The two authors argue that since the economic impact of its fiscal provisions will be much affected by which expenditures are trimmed and what is done with taxes, the Fund is becoming more insistent on knowing how a government proposes to implement promised reductions in the budget deficit— increasingly urging governments to install social safety-nets and asking awkward questions about military spending.

(b) **Export expansion:** export expansion of manufactures now commands universal support. It provides for economies of scale: the larger the market in which one sells, the greater the possibilities of expanding production, perhaps at falling costs, and expanding sales, probably at unchanged prices, thus raising employment, income and profit margins. Further more, rising export earnings will help alleviate the forex constraint to growth, a critical issue in most LDCs. The argument is that conditionality helps to increase the out-ward orientation: devaluation, for instance, aims at making exports more attractive on the world market, thereby providing exporters with some incentive to export more.

(c) **Management of public enterprises:** public enterprises in infrastructure, goods and services production, and trade represent a large proportion of the total in many developing countries (about 80 percent in Zambia). Their management and finances have a major effect on public finance and credit in general. Avramovic (ibid) argues that management weaknesses have been frequent in most third world SOEs, mostly because of political patronage or insufficient operational autonomy; and finances have frequently been weak because the enterprises have been used as a vehicle for subsidisation of consumption, as a source of

employment, or as a conduit for irregular transactions. The World Bank, as an investment project lender, has emphasised institutional building at the enterprise and sector levels. LDCs have now become increasingly aware of the need to improve and upgrade the operations and management of SOEs, with many now engaging in outright privatisation.

Bird and Killick (ODI 1993) also point out that in fact in many respects the Fund is also paying more attention to achieving a better balance between demand-management and supply-side measures. In many cases, the privatisation or reform of public enterprises is stipulated— to reduce budgetary pressures and also to raise productive efficiency and growth.

(d) **Agricultural prices:** concerned with the agricultural lag in a number of LDCs and their rising food imports, both the Bank and Fund have insisted on improvement of agricultural prices in internal markets. The Bank has normally made its agricultural lending conditional upon price improvements where warranted. Avramovic (ibid) points out that the need to provide adequate price incentives in agriculture is now recognised in a very large number, perhaps most, developing countries.

4.8.2 **Social costs unintentional— the counter-factual argument:** Green (1989: pp31-32) argues this case thus:

"The extent of human deprivation, social misery, mass poverty, dislocation, violence and death in Africa today is a fact. The failure of adjustment programmes— Fund and Bank-backed or otherwise— to achieve a halt to the erosion of the standards of life (and death) of the poor and vulnerable ...is a fact. (But) poverty, vulnerability, inequality and threats to the social fabric in Africa are not a product of the 1970s or 1980s, much less of Bank and Fund prescriptions for stabilisation and adjustment. The challenge to Bank and Fund stabilisation/adjustment programmes is often put in a form that suggests that the programmes themselves raise inequality and do so with deliberate intent. The last is not the case".

Green invokes the counter-factual argument by suggesting that in Africa (before European colonisation) life on average was short and precarious; food security was frequently lost; diseases were frequently uncontrollable; social equity and equality were notable by their absence; women were subordinated; and that poverty and vulnerability were

widespread. Agreeing that adjustment programmes do indeed involve social costs, Green says however that malicious afore-thought on the part of both the Bank and the Fund is simply not evident.

Counter-factually, Green argues that whether on balance Fund and Bank programmes have made poor people poorer is unclear and will remain so. This is so because the comparison has to be not with pre-crisis years, but to what would have happened with the crises had there been no internationally backed programme. He rightly points out that counter-factuals are always hard to prove, and agrees with Killick (1984: p185) that the record of "go it alone" rehabilitation and recovery efforts— such as Zambia's after abandoning the IMF-programme in May 1987— is not particularly satisfactory. Killick goes so far as to describe it as discouraging.

4.8.3 **Fund awareness about the need to adapt conditionality:** the Fund itself recognises, in theory, that conditionality must be adapted to changing circumstances and specific cases; it cannot be a rigid and inflexible set of rules (IMF, 1987). Bird and Killick (ODI 1993) support this view. They point out that in many ways the Fund has in recent years sought to respond to past criticisms and to adapt to changing conditions. It has become somewhat more sensitive to the potential social harmfulness of its programmes. It has reduced its reliance, they say, on a small number of demand-management indicators. It has found ways of providing soft, medium-term finance to low-income members and— Bird and Killick argue— of addressing some structural economic weaknesses.

4.8.4 **The scape-goat argument:** Killick (1992a) believes that in the absence of policy conditions, the danger is that financial assistance can be— and in some cases has been— used to defer needed action, to buy time in the hope that some favourable turn of events will remove the necessity for unpalatable action. He supports Jaycox's contention (chapter 2) that Bank-Fund involvement can help through the provision of advice and technical assistance in the preparation of adjustment measures. Killick concludes that the Bank and Fund also provide LDC governments with a useful scape-goat upon whom the blame for unpopular

measures can be deflected— as has indeed happened in the overwhelming majority of programme countries, Zambia under Kaunda providing a useful example.

Noting that SSA has an urgent need to adapt its economies to changing global and domestic circumstances— in Zambia's case depleting copper ore bodies are a particularly grave threat— Professor Killick advises that the Bank and Fund should be seen as a force trying to assist this process in usually sensible ways.

4.8.5 **Bank-Fund remote-control:** Susan George (1988) provides our last, by no means the least, defence of conditionality. She argues that the Bank and Fund are highly visible because they are the architects of SAPs that create serious hardships for low-income groups in LDCs. But, she says, they cannot be held responsible for the circumstances that brought indebted countries to their doorsteps in the first place. Nor can they even be credited with an inordinate amount of power in the world financial system— they simply do not have that kind of money at their disposal, and ultimately they take their orders from outside.

She argues that their role is that of messenger, watchdog, international alibi and gendarme for those (mostly Western governments, central banks and private banks) who do hold financial power. In this sense, she concludes, the Bank and Fund are a sort of Godfather figure— they make LDC-governments offers they cannot refuse.

4.9 **Chapter Conclusions.**

Why structural adjustment programmes? We have attempted to answer this question by pointing out the main goals of structural adjustment programmes. These include encouraging non-traditional exports; reduction or elimination of balance of payments deficits; improving efficiency in the use of public resources; reductions in the rates of inflation and un-employment; switching production from non-tradables to tradables and, ultimately, fostering growth in the economy concerned.

Among the major criteria for assessing whether or not the above goals have been achieved we identified the before-after approach, the actual-versus-targets approach, and the control group approach. The chapter has found— and supported Killick's argument (1992a: p3)— that there are large methodological pitfalls in the way of any conclusive evaluation of the effectiveness of SAPs using these three criteria.

We then went on to define and discuss the vehicle or overall strategy by which both the Bank and Fund attempt to achieve the goals of SAPs: Conditionality. We discussed its content, dimensions, layers, criticisms and defences.

With regard to both the criticisms and defences of conditionality, we find that there are some sound arguments on both sides. SAPs are criticised, for instance, for worsening the human condition. But it is not easy to disentangle the influence of programme and non-programme factors. Social costs of adjustment are not intentional.

The counter-factual argument raises the question of what would have happened to the overall pre-SAP economic and social crises had there been no Bank and Fund programmes. We noted that counter-factuals are hard to prove, but people like Killick (1984) argue that the record of third world nations that have attempted "go it alone" recovery efforts is discouraging.

Despite the wide controversy surrounding conditionality, it can not be denied that the number of countries embarking on Bank-Fund SAPs has risen dramatically in the last 8 years to include, lately, Russia and a host of other former Soviet-block nations— all needing Bank and Fund support towards re-structuring their economies.

In the next chapter we shall identify the major problems of the Zambian economy and attempt to show how conditionality has been applied in the country's economic re-structuring efforts.

CHAPTER 5: STRUCTURAL RIGIDITIES AND STRUCTURAL ADJUSTMENT: THE ZAMBIAN EXPERIENCE

5.0 Chapter Objectives

We aim to achieve three things in this chapter. We begin with a review of the nature and origins of the present structural crisis facing the Zambian economy. We then outline the nature of the country's 1983-93 structural adjustment programme. This is in keeping with what we emphasised in chapter 1: that the nature of Zambia's SAP has to be understood before its impact on business— chapters 7 through 9— can be assessed. Our third major aim is to highlight and give a preliminary critique of the new Zambian government's economic agenda— we did propose in chapter 2 that any study on Zambia's immediate post-Kaunda period would be remiss not to give such an assessment.

5.1 History of the problems of the Zambian economy

Any attempt at identifying the nature of Zambia's current structural crisis must seek a historical, socio-economic, and political perspective. Although it can be argued that most of the causes of Zambia's economic problems are copper-related, no attempt is made here to rank these causes because we do not have space for the sort of debate and controversy such an attempt would invariably invite. Killick (1992b: p16) makes the same point with regard to Sub-Saharan Africa (SSA)— arguing that there is a good deal of disagreement about the weight that ought to be attached to various frequently-cited causes of SSA's sub-standard economic performance. The following are some of the major causes of Zambia's economic problems.

5.1.1 The 1953-63 Federation of Rhodesia (Zambia and Zimbabwe) and Nyasaland (Malawi): during the decade to independence, a significant share of Zambia's mineral resources and export revenues were channelled by Britain towards developing infrastructure in Southern Rhodesia (Zimbabwe) and South-Africa, with Hazlewood (1967: p185) estimating that between 1954 and 1963 Northern Rhodesia (Zambia) lost a total of some £77 million to Southern Rhodesia and Nyasaland as a result of Federal fiscal

re-distribution (see also Seidman 1983: p82). Hazlewood (ibid: p212) says every year during the Federation, Northern Rhodesia subsidised the rest of the Federation— except in 1959 for Southern Rhodesia. He says the cross-subsidisation was large: in six years it averaged over £10 million per year.

The fact that Zimbabwe is infrastructurally and economically more developed than Zambia is partially explained by this non-coincident historical fact. One reason Hazlewood (ibid) advances for the superior Southern Rhodesian economy is that Federal expenditure in Southern Rhodesia was always more than twice that in Northern Rhodesia although Southern Rhodesia had little more than one-third of the Federation's population. Why the imbalance? Southern Rhodesia had two-thirds of the Europeans in the Federation.

Clark and Allison (1989: p5) argue that British policy towards Northern Rhodesia was not the creation of a viable, self-sufficient state, but the integration of the country into the British colonial plan. Zambia's manufacturing and farming sectors, they contend, were neglected while other British colonies in Southern Africa were developed to fill these gaps. For further discussion of Zambia's socio-economic period to 1963 see, among others, Turok (1989).

5.1.2 **Land-lockedness and Southern African liberation:** Zambian resources (both human and material) were used to support liberation struggles in Zimbabwe, Mozambique, Angola, Namibia, as well as the African National Congress (ANC) of South Africa. Simson (1985: p28) estimates the cost to Zambia of the liberation war in Rhodesia and economic sanctions against the Ian Smith regime in the 1970s at some $1 billion. With Unilateral Declaration of Independence (UDI) in Southern Rhodesia in 1965, landlocked Zambia's imports and exports could no longer use the southern routes due to United Nations (UN) sanctions on Rhodesia. Coupled with the country's efforts to reduce its strong economic links with its dissident neighbour, this did help stimulate Import-Substitution-Industrialisation (ISI) (Karmiloff 1988 and 1990: p298; Turok 1989).

The country's land-lockedness, on the other hand, is a problem beyond any one's control. suffice to say that land-lockedness has led to high transportation costs to and from the sea for Zambia's exports and imports. Kydd (1988: p129) for example mentions Zambia's landlocked position and high costs of access to world markets as one of the major obstacles to an agriculture-led development strategy. In the area of transportation of imports and exports, Tanzania-Zambia Railway (TAZARA) was the ultimate, albeit costly[1], result: since its construction by the Chinese— and inception in 1975— the line has been beset by all imaginable operational problems. It has consistently operated way below capacity.

5.1.3 **Copper-domination:** the background to the research problem and the rationale for this study— both given in chapter 1— discuss this point. Suffice it to mention here that it is by far the most serious structural rigidity of the Zambian economy. The progressively weak performance of Zambia's copper-dominated export sector is perhaps the single most important catalyst of the country's poor post-1980s development record. Zambia's economic fortunes since independence have been dictated by the fate of copper on world markets: when copper prices fall, leading to a reduction in forex earnings, Zambia goes into debt and further dependence or cuts in imports, which in turn sends negative ripples throughout the rest of the socio-economic sectors. Ironically, the comparatively healthy pre-80s industrialisation record was itself copper-driven, as copper was the cash-cow every other sector looked to for capital finance. The UNDP (1989: p7) for example indicates that the more than 10 percent annual GDP growth rate in manufacturing during the first decade of independence was mainly due to the financial resources allocated to the sector from copper earnings.

5.1.4 **Congenital intellectual rigidities:** the British colonial masters bequeathed to Zambia, in 1964, a neglected, uneducated workforce (66 to 100 graduates at independence is nothing to sing home about). What is worse, even when Kaunda determined to educate his people (freely), the training was initially concentrated in the wrong areas. Instead of training medical personnel, engineers, accountants and managers (the only

Business School in the country was not opened until a decade and half later, in 1979), emphasis was initially placed on politics and public administration.

What impressive educational achievements were made between 1964 and the early 1980s have been slowly negated by both the unprecedented brain-drain to neighbouring Preferential Trade Area (PTA) countries, South-Africa, Europe and North America; and lately by the Acquired Immune Deficiency Syndrome, AIDS. Sadly, AIDS has eaten away at the educated core: young adults, technocrats, teachers, lecturers, and politicians. If national and international projections regarding infection rates by the year 2000 are anything to go by, then there is little doubt that, across Africa south of the equator, the disease could inflict perhaps the heaviest economic blow by any one factor since the acquisition of self rule. A recent UN study— see News from Zambia, 23 November-11 December 1992— says some areas in Zambia, Uganda and Rwanda show 35-40 percent infection, and that population growth may fall from 3 percent to 1 percent in the next 30 years. The study indicates that at least 25 percent of the workforce could be infected by the year 2010.

5.1.5 **Dependence on primary exports:** insights into Zambia's structural rigidities must also seek an international historical perspective. A major congenital rigidity of most Sub-Sahara African (SSA) economies is that their colonial masters encouraged the development and export of primary raw material products meant to service factories in Europe, a situation that has changed very little. Killick (1992b) argues that for most SSA nations that came to independence with heavy concentration on a limited number of commodity exports, that position had changed little by the beginning of the 1990s.

But then he also rightly counters that it is increasingly implausible to attribute Africa's economic ills to colonialism[2], not least because the anti-colonial argument begs the counter-factual question of what would have happened to Africa's economies in the absence of colonial rule. He proposes, rather, that the interaction of colonialism and traditional social structures created conditions at independence from which it could be

predicted that SSA would have greater difficulties in economic development than, say, Asian ex-colonies; and led to political systems incapable of responding adequately to economic crisis. Intending no historical or sociological determinism, Professor Killick merely makes a plea for us to be willing— in the search for an understanding of SSA's development problems— to look below the economic surface.

5.1.6 **Labour versus Capital intensity:** another structural bottleneck of the economy is its reliance more on capital rather than labour-intensive techniques of production, a situation many critics attribute to the nature of the ISI strategy embarked upon after 1965. Donges and Heimenz (1991: p217) point out that import-substitution policies tend to favour: production of relatively capital-intensive products— as typically the industrial structure gets diversified in the vertical direction; the application of capital-intensive technologies— because of relatively low barriers to imports of capital goods; and an inefficient use of capital— owing to the lack of competition in domestic markets. Turok (1989) notes that ISI made Zambia increasingly import-dependent rather than the reverse. Appendix 5.1— an abstract of the case of Mansa Batteries Limited— lends credence to the assertion that ISI did in some cases go hopelessly wrong.

5.1.7 **Finger in every pie—control of the "commanding heights":** the 1968-1969 Matero-Mulungushi Reforms: many critics attribute current weaknesses in the economy directly to the fact of state intervention (Turok 1985: p57). The United National Independence Party (UNIP) government embarked on wide-spread nationalisations between 1968-69, a move that was to place 80 percent of the economy under the Zambia Industrial and Mining Corporation (ZIMCO) and the Industrial Development Corporation (INDECO). This effectively placed local markets and prices under administrative control. One of the immediate consequences of this government control of markets and prices— as we shall see towards the end of section 5.1— was the emergence of the parallel market and shortages of essential goods and services. For socio-economic reasons parastatals and some private firms have had to produce and sell their products at rigidly controlled prices, thus affecting operational efficiency

and productivity. Henley (1992) is more convincing on this point when he argues:

"The impact of price controls is most serious in terms of its effect on operational efficiency because it interferes with incentives in business activity: managers do not know whether their prices are going up or down. They are supposed to alter production depending on whether prices are attractive or not. In general, therefore, price controls interfere with the smooth running of business".

5.1.8 **Deleterious world economic conditions:** exacerbating Zambia's troubled economy have been a succession of unfavourable world economic conditions. Killick (1992b: p16) also provides a rounded analysis of this argument with regard to the performance of SSA economies. He cautions, however, that it is by no means clear that SSA as a region has suffered from worse terms of trade than other developing regions. He proposes that other explanations peculiar to Africa have been instrumental in its poor development record— such as domestic policy mistakes (see also the 1981 *Berg Report* as discussed in chapter 2) and the influence of sociological factors (including human, capital, technological and institutional weaknesses) and of political systems and instability. Concludes Killick (ibid: p47):

"This search thus led us into the *historical* and *social* particularities of the continent, concluding that a conjecture of demographic, social and historical influences unique to SSA resulted in a situation ready-made for the spread of clientelist-based political systems. The fragility of post-independence nation-states reinforced the incentive to use patronage and a centralised authoritarianism. These factors combined with the experiences of late colonialism and various intellectual influences to result in many of the policy choices which hindsight shows to have been anti-developmental".

5.1.9 **Erroneous World Bank initial lending:** Ben King (1991), a former World Bank veteran, provides another— hitherto not widely cited— exacerbation of Zambia's structural crisis. He believes that if the World Bank had taken a long-term view of the Zambian economy, it would have insisted on a better allocation of resources to agriculture as a condition for lending— any kind of lending— during the 1970s, since the case had already been very well documented by that time. King asserts that a lower level of aid allocated in a better manner would have been more

useful, that the nature of initial assistance was in fact part of the making of the crisis.

5.1.10 **Rendezvous with Destiny—Mining into debt:** by 1985, Zambia's debt had clearly risen on the list to be the country's number one problem (Fundanga 1989: 146). Zambia's total external debt[3] has worsened from $2.2 billion in 1980 (Independent Group of Economists 1988: table 8) to $6.9 billion in 1989 (Geisler 1992: p114; UNIDO 1990b: p2) and an estimated $7.6 billion in 1993 (Oxfam Report on Zambia, 1993).

Any attempt at appreciating Africa's debt situation ought to start by recognising that debt problems are largely a symptom of other sources of economic difficulty, and it is these which make loan repayment burdensome. A shortage of foreign exchange, and of the imports it can buy, is at the heart of many of these difficulties (ODI, et al 1988). And as Quarcoo (1990: p10) observes, the need to divert scarce foreign exchange derived from limited export proceeds to debt service payments means that other critical development needs must be sacrificed. Fundanga (ibid) further argues that in Zambia's case a significant portion of the debt went to providing the salaries and upkeep of technical experts from the source countries, as well as acquiring equipment which never really increased productivity. Inefficiencies of technology transfer with poor infrastructure is illustrated by the case of Mansa Batteries Limited in appendix 5.1.

5.1.11 **Ephemeral policy regimes:** in retrospect, perhaps some of the causes in the above scenario are not surprising, given a UNIP government that espoused and pursued consistently the socialist economic, political and social policies from 1964 to the late 1980s. Buzz words such as humanism, scientific socialism, one-party participatory democracy, and truth-justice-fair-play were common in the Zambian political vocabulary of the day, all of which amounted to fertile ground for policy reversals such as the one witnessed in 1987. We shall discuss this later in the chapter.

5.1.12 **Other causes:** several other explanations have been offered in the literature to explain Zambia's poor economic record— including such factors as the Zambianisation programme; tribalism in the parastatal and other sectors; hurtful political appointments to vital sectors of the economy; general corruption and the absence of an appropriate work-ethic on the part of the Zambian people. The evidence on their actual economic impact, however, is either patchy or begs further questions and validation. There is a commonly held view, for instance, that the Zambianisation programme led to serious weaknesses in industrial performance. But as Turok (1989: p148) points out, the evidence is hard to quantify and the necessary scientific studies have not been made. In his view, many foreign agencies like the UN, IMF and World Bank who hold this view may not necessarily be wrong, but may equally be overstating the case.

5.1.13 **Zambia's Informal economy:** Feige (1990) identifies a plethora of titles used in the literature to refer to informal economies, including: subterranean, hidden, grey, shadow, underground, clandestine, illegal, unobserved, unreported, unrecorded, second, parallel, and black economy. His taxonomy is given in appendix 5.2. As a general definition, Feige (ibid: p991) says economic agents are categorised as belonging to the formal or above-ground sector of any economy when their actions adhere to, or are protected by, established institutional rules. Underground economic players, on the other hand, evade, escape, or are excluded from the institutional system of rules, rights, regulations, and enforcement penalties that govern formal agents involved in production and exchange. As a result, underground activities often elude enumeration and measurement in the socio-economic accounting systems designed to monitor economic activity.

A major outcome of Zambia's economic problems and mis-management— especially administrative controls— has been the emergence of a large informal economy— including un-licensed cross-border trade or smuggling of essential goods (especially maize meal, cooking oil and sugar) into neighbouring countries— notably Zaire— where these goods have fetched better prices. Reverse-smuggling has also, of course, occurred from

Zaire into Zambia, involving anything from wrist watches to Salaula— second-hand clothes. The sale of Salaula is perhaps the most notable development in Zambia's informal economy in recent years.

Illegal mining of precious stones such as emeralds by illegal aliens from other African nations— notably Senegalese and Malians (commonly known in Zambia as Sene-Senes) has in recent years also become a particularly worrying phenomenon. New African (December 1992) estimates that Zambia loses around $500 million annually through illegal mining of gemstones. Finally, until the liberalisation of foreign exchange dealings in early 1992, there had also sprang up a large, "Katondo Street" black market in foreign currency.

It has to be argued that the informal or parallel market has been of great benefit to the people involved. In the absence of formal alternatives, it has enabled them to scrap a living. It has alleviated shortages for the goods that are smuggled or traded on un-official markets, and has enhanced opportunities for social mobility for people who can not do so in the official, above-ground economy. In the developing world, according to the World Bank (1990: p63) the informal sector plays a vital role in providing employment and incomes. It has been estimated to account for 75 percent of urban employment in many SSA countries and for 85 percent in Pakistan.

5.2 National Development Plans

Like most other SSA nations, Zambia has prepared National Development Plans (NDPs)— forerunners to Policy Framework Papers (PFP) under SAPs— since as far back as 1966. The First National Development Plan (FINDP) ran from 1966 to 1970; the Second National Development Plan (SNDP) from 1972 to 1976; the Third National Development Plan (TNDP) from 1979 to 1983 (actually ran from 1980 to 1984); there was an Interim National Development Plan (INDP) from July 1987-December 1988; and the Fourth National Development Plan (FONDP) has been running in theory from 1989 to 1993 (now the MMD's 1992-1994 SAP).

Objectives and priorities of the NDPs have included: (a) diversifying the economy to make it less dependent on copper; (b) narrowing the gap between urban and rural incomes by increasing the productivity of agriculture; (c) rapidly raising the general level of education— as well as developing local technical, administrative and managerial skills; and (d) raising the general level of social welfare. Achievement of the first two goals proved elusive (Simson 1985) while significant advances were made in regard to the third and fourth goals.

Relative to the starting point at independence, Zambia has made impressive progress in many development fields (Gulhati 1989: p27) such as education, health, and general infrastructure. The quantitative targets of the five-year NDPs constituted more specific sets of policy objectives.

But as various authors point out, implementation of the NDPs fell short of targets. The SNDP, for instance, had a 15 percent targeted growth rate for manufacturing— it only achieved 1 percent.

Interviews with Bank of Zambia (BOZ) officials point to most of Zambia's external borrowing occurring during the FINDP and SNDP. A lot of the debt (incurred during the good copper years) went towards development of infrastructure— such as Tanzania-Zambia Railway (TAZARA), roads, hospitals and other communications. In the latter NDPs emphasis was also laid on the promotion of capital and intermediate goods industries and fuller utilisation of existing productive capacities, as well as on the encouragement of small-scale and rural industries (Muzandu 1985: p467).

In a violent criticism of NDPs in LDCs, Please (1992: p293) says in many instances they constituted little more than a statement of desirable longer-term objectives plus a public investment programme and a shopping list of projects drawn up primarily in order to mobilise foreign financing. Little attention— he argues— was given even to such obvious matters as the complementary need for funding recurrent operations and maintenance expenditures or to the determination of project priorities when the available financial resources (domestic and foreign) turned out to be less than the typically optimistic projections of the plan analysis.

Most importantly— he adds— broader questions of development strategy such as pricing policy, incomes policy, the relevant roles of the public and private sectors, the need to generate employment opportunities both within and outside the formal sector of the economy, the role and mobilisation of foreign private investment, and a multitude of other long-term development issues were virtually if not completely ignored in plan documents.

In Zambia's case, all NDPs were also blown off course by a combination of other factors, led not surprisingly by lower-than-targeted copper forex earnings. Gulhati (ibid) also blames the adoption of ambitious targets that frequently were not internally consistent or commensurate with available resources.

Zambia is one of the SSA countries that embarked on SAPs because they found what Jaycox (1990: p37) calls "their backs to the wall". In The Courier (May-June 1991: p2) Jaycox says most SSA countries did not introduce SAPs enthusiastically:

"They entered into SAPs because they were desperate and when they did so there were no goods on the shelves, no spare parts, no trucks, no batteries and no tyres...no drugs in the clinics, no chalk and books in their schools".

With every major economic indicator declining rapidly, by 1982 Zambia was ready for fundamental reform. Save the Children Fund and the ODI (1988: p53) for example point out that per capita income was 44 percent lower in 1983 compared with 1974. In the section that follows we highlight some of the most significant measures taken by Zambia as part of Bank and Fund conditionality during the first decade at adjustment— 1983 to 1993. The importance of this section— as emphasised under "*scope of the study*" in section 1.3.1 of chapter 1— is to enable the reader an appreciation of what measures have been in place as we proceed to assess their impact on the manufacturing sector in chapters 7 through 9. As pointed out in chapter 1, it is outside our purview to give a detailed account and analysis of the process and outcome of Zambia's SAP at the macro-level. Such a task is handled variously and

more competently by such authors as Harvey (1988b, 1991, 1992); Fardi (1991); Fundanga (1987); Makgetla (1986); Ncube, Sakala and Ndulo (1987); Kydd (1989); Colclough (1988); Seshamani (1990); Sanderson (1987, 1992); Meijer (1990); World Bank (1986); and Oxfam (1993).

However as we promised in chapter 2, we shall be able to comment on both the 1985-87 forex auction period as well as give an initial assessment of the new government's performance in the 14 months between December 1991 and April 1993— with the latter taking much of the remaining space in this chapter.

While the rationale for assessing the period after 1991 is self-evident, the auction period merits coverage because of what Kydd (1989: p134) sums up so appropriately when he says:

"In pushing the (Zambian) auction experiment, the IMF placed its reputation on the line, and for this reason, if no other, it can be expected that this chapter of Zambia's economic history will eventually be well researched".

Sanderson (1987: p1) also rationalises our discussion of the auction period by observing that:

"Zambia's introduction of a foreign exchange auction as the central plank of her IMF-sponsored economic restructuring programme was a bold new step. Indeed it was much more than bold, it was revolutionary. For it meant that an avowedly socialist country— even if one with a mixed economy— committed to central planning and tight administrative control of foreign exchange, had suddenly done the inconceivable. It had decided to liberalise its economy and to leave the allocation of its vital foreign exchange to a market mechanism".

5.3 **Zambia's adjustment measures between 1983 and 1993**

Table 5.1: The nature of Zambia's Structural Adjustment Measures between 1982 and 1993: A Chronology

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PERIOD, SIGNIFICANT MEASURES, AND APPROXIMATE POLICY REGIME[4]

[A] BEFORE 1982 : CONTROLLED REGIME

[B] DECEMBER 1982—3RD OCTOBER 1985: DECONTROL AND DEREGULATION

December 1982: general decontrol of prices, increased flexibility allowed to industry to set prices.

January 1983: Kwacha devalued by 20%; wage increases restricted to between 5 and 10%; interest rates increased as a deterrent on domestic credit expansion and to encourage savings.

Rest of 1983: institutional adjustments were made such as stream-lining the system of foreign exchange allocation and issuing of import licences on the basis of a monthly forex budget.

May 1984: introduction of 50% foreign exchange retention scheme to encourage non-traditional, non-mineral exports; agricultural producer prices increased.

Rest of 1984: under 50% forex retention scheme, forex now to be held by commercial banks— instead of BOZ— on behalf of their clients.

March 1985: National Commission for Development Planning (NCDP) and Ministry of Finance merged under one Minister.

[C] 4TH OCTOBER 1985—30TH APRIL 1987: HIGHLY LIBERALISED REGIME: THE FOREX ACTION PERIOD[5]

4th October 1985: establishment of a weekly forex auction to allow market forces to determine the exchange rate of the Kwacha; substantial liberalisation of trade and external payments— including decontrol of interest rates and of price controls on a number of goods.

April 1986: Economic management team (including Finance Minister and BOZ Governor) changed, critics of the reform programme put in charge of implementing it.

December 1986: removal of subsidies on breakfast (high quality) maize meal while maintaining subsidies on the lower quality (roller) meal consumed by low income groups. Roller meal disappeared from the shops.

December 1986: IMF-riots as the price of maize meal (above) went up, riots and civil unrest followed in mining and urban areas. Government reinstated the maize subsidy and took over private milling companies.

Early April 1987: a 2-tier exchange rate was put in place: one for government transactions, debt service and agricultural inputs; the rest of the economy had to bid in the "second window" where the Kwacha went into a free-fall.

[D] 1ST MAY 1987—29TH JUNE 1989: CONTROLLED REGIME: IMF PROGRAMME ABORTED, "RECOVERY FROM OUR OWN RESOURCES"

1st May 1987: IMF Programme was abandoned:

"Restructuring from our own resources" announced, also called variously as "The Interim National Development Plan, INDP" or the "New Economic Recovery Programme, NERP": had the spirit of the previous reform programme, but little of its content.

Reinstatement of administered allocation of forex— this time through a Foreign Exchange Management Committee (FEMAC); Kwacha initially fixed at K8 to a $1; bank lending rates were fixed at 20%; issuing of import licences and the allocation of forex were unified to avoid more import licences being issued than the available forex.

Debt service payments were limited to 10% of export receipts less payments for imports of petroleum and fertiliser and imports for the mining sector: aim of the moratorium was to enable the country to use its own forex resources rather than borrowing.

General price freeze on all commodities was replaced by price control of 23 essential commodities, now under a Prices and Incomes Commission (PIC).

9th November 1988: Kwacha devalued; an Export-Import (EXIM) Bank was established.

[E] 30TH JUNE 1989—OCTOBER 1991: HIGHLY FLEXIBLE REGIME WITH MOVES TOWARDS GREATER LIBERALISATION IN THE 1990s

30 June 1989: New economic measures were announced:

Prices for all products except maize were decontrolled, statutory powers of PIC were revoked; Kwacha was devalued from K10.81 to a $1 to K16.08 to a $1 (effective devaluation came to 37.5%)— Kwacha was subsequently put on a crawling peg; bank lending rates were raised from 25% to 35% with corresponding increases for all other interest rates.

National Agricultural Marketing Board (NAMBOARD) was abolished, its functions— maize marketing, fertiliser importation, maintenance of maize reserve— were transferred to Nitrogen Chemicals of Zambia and Cooperatives; phasing of fertiliser subsidy began.

Parastatal Reform Programme was announced, including the lifting of price controls to allow SOEs to charge prices that reflected a fair return on investment.

User fees to the "beneficiaries" of secondary and higher education were announced.

A maize meal coupon system was announced, targeted at vulnerable groups (most needy and lowest income groups— **initially this included University Lecturers such as this author!!**).

Financial incentives were announced to encourage rural re-settlement.

Salaries for the civil service were increased by 50%.

July 1989: Currency change— total demonetisation of all Kwacha currency notes in circulation until 21 July 1989.

August 1989: A Policy Framework Paper (PFP) was agreed between GRZ, the IMF and World Bank, representing a renewed effort towards the SAP and normalisation of relations with the donor community, especially the IMF— started during the 1988 budget speech.

February 1990: introduction of a two-tier (dual) exchange rate system, FEMAC and BOZ to allocate forex:

Official Rate Window: all traditional (metal) export earnings of ZCCM; all foreign currency inward remittances received by foreign embassies and other diplomatic missions, UN organisations, charities, non-governmental organisations; forex inflows from other external sources except those feeding the market rate window (below); FEMAC-allocated forex for imports into Zambia; BOZ-allocated forex for various purposes other than those for which BOZ would sell forex through the market rate window; and all project support.

Market Rate Window: all non-traditional (non-metal) export receipts and forex receipts and forex earnings from hotel and other services which were eligible for the (50%) retention facility under the export retention scheme; foreign private investment; Donor BOP support; tourists and anyone else wishing to sell forex on a "no questions asked" basis; forex of individual diplomats and expariates; forex to import goods falling in the listed categories which included chemical elements and compounds, tanning, dyeing and colouring material, and plastic materials.

End of October 1991: General and Presidential elections were held after "political conditionality from the IMF— see discussion in chapter 4). President Kaunda lost to trade unionist Frederick Chiluba.

[F] SINCE NOVEMBER 1991 (MMD's SAP): FREE-MARKET ECONOMY: MOST FAR-REACHING LIBERALISATION OF THE ECONOMY TODATE

Early 1992: Liberalisation of the economy, market-reforms announced:

Abolishment of price controls, liberalisation of all interest rates, liberalisation of foreign currency dealings— Zambians and businesses can now open and operate forex accounts in local and foreign banks.

Liberalisation of trade and financial markets including insurance and pensions; personal tax reduced to 35% from 50%, company tax reduced from 45% to 40%; domestic and import sales taxes to be unified at a general rate of 20% for all taxable goods.

100% forex retention scheme announced for all non-traditional exporters.

Pruning of the civil service announced, K1 billion set aside for the Social Action Programme.

Kwacha devalued by more than 30% to a new rate of K125 to a $1.

Currency change: announcement made to change the Kwacha.

2nd half of 1992: Privatisation of 134 SOEs at the rate of 20 a year announced: to proceed expeditiously and revenues generated by the sale of companies to be put into a special fund to supplement the government capital budget.

October 1992: Bureau de change become operational, to buy and sell forex on a "no questions asked basis".

December 1992: the official exchange rate and the retention rate were unified when the government and ZCCM began operating at the market exchange rate (then still called the retention rate).

A labour-intensive Food-For-Work Programme was initiated to help feed people as a result of the devastating drought: people got food supplies in return for rebuilding roads, schools, clinics etc— especially in the rural areas.

January 1993 Budget Address:

All liberalisation and privatisation initiatives initiated in 1992 continued.

Income tax reduced to 35% maximum: workers earning K300,000 per annum to pay no tax; basic company tax reduced from 40% to 35%.

The importation, distribution, and marketing of petroleum products will be liberalised.

Government to operate on a "cash only" basis to help reduce the budget deficit, money growth and inflation: Bank of Zambia empowered to deny any government transaction unless there are adequate funds in the appropriate accounts.

Foreign investors now allowed to repatriate 100% of after-tax profits, with no restrictions, and no bureaucratic screening.

February 1993: currency change: the Kwacha was changed— Kaunda's portrait removed from the currency, still called the Kwacha.

Sources: This table was completed on 15 April 1993, compiled by this author from the following 20 sources: GRZ (1989b: p27; 1989c; 1992); Seshamani (1990); Fardi (1991: p332); Ncube, Sakala and Ndulo (1987: p127); Mugerwa (1990); Meijer (1990); Zimco Report (1989); Fundanga (1989: p142); Kydd (1989: p127); Save the Children and ODI (1988: p53); Muntemba (1989; 1992); Kamya (1990b); Sanderson (1987); Standard Bank of Zambia Ltd (1989); Zambanker (1985); Gulhati (1989); Independent Group of Economists (1988); ZACCI (1992); Finance Bank Zambia Ltd and Price Waterhouse (1992); and Zambia Daily Mail, 30 January 1993.

5.3.1 Brief comments on the measures in table 5.1

(a) **Exchange rates:** it is evident from table 5.1 that devaluation of the Kwacha has been the dominant policy instrument in the 10 years Zambia has attempted adjustment. The rationale— according to Kamya (1984: p2)— has been: (a) to eliminate persistent BOP deficits by stimulating exports, reducing imports, curbing capital outflow in the form of remittances and foreign debt payments, and stimulating capital inflow as the Kwacha becomes cheaper for foreign tourists and investors; (b) to reduce the rate of unemployment by stimulating domestic production— the high import prices were supposed to force Zambians to purchase domestically produced substitutes; and (c) to restructure the existing industrial pattern— devaluation has been aimed at forcing Zambian companies to utilise local raw materials by eliminating part of the exchange rate subsidy on imported raw materials.

Yet because of the absence of necessary conditions for its success— as outlined in section 4.7.7 of chapter 4 (see also Meijer 1990: p686) it has not achieved the desired goals.

(b) **Ephemeral policy regimes:** it is also evident that most measures have not been given much chance of bearing fruit because of constant changes and reversals, a point we shall discuss again with regard to the 1985-87 forex auction. More will be said about selected items in table 5.1 in the following sections, as well as when we assess the MMD's performance in section 5.5.

5.3.2 Apportioning blame for failure of Zambia's 1985-1987 programme

The auction experiment did have some positive results: such as the near-disappearance of the black market in foreign currency (known locally as "Katondo street"); a sharp reduction in the levels of corruption in forex allocation; and a new spirit among many economic agents to improve the efficiency of their operations. It also curtailed the time lag (and the associated high costs of depositing funds at the Central Bank) between submission of applications for forex and allocation and release of funds by the BOZ (Kamya 1990a: p29). Since successful bidders were automatically given import licences, the auction system also eliminated another administrative, bureaucratic, time-consuming and subjective method used by the Ministry of Commerce and Industry to allocate import licences which were a necessary condition for obtaining forex.

Despite the above positive developments, however, the programme failed/was abandoned on labour day in 1987. The blame for its failure is apportioned in the following sub-sections.

5.3.2.1 On the Zambian government

(a) **Lack of political will:** insufficient political support has been cited as a major reason for the failure of the reform. An opposing viewpoint expressed by some members of the World Bank and the Zambian government is that the reform package was enthusiastically "bought" by

an influential minority in the government. Within the ruling party, however, support for the programme was weak from the beginning, since the party stood to lose political influence and access to financial resources as a result of the reforms (Fardi 1991: p349).

(b) **Extent of intervention:** the extent of government intervention— such as the 30 percent interest-free advance deposit for each bid, and the introduction of a "Dutch Auction System" later where "too high" bids were discouraged since each successful bidder was obliged to purchase forex at a rate commensurate with his bid— revealed Zambia's inherent economic constraints and the subsequent inappropriateness of the auction system in view of such constraints (Kamya 1990a: p31). Foreign exchange was (and has continued to be) in such short supply that the BOZ could no longer honour successful bids. A long "auction pipeline" was established, leading to loss of confidence in the system by the business community.

5.3.2.2 **On the donor community**

(a) **Financing amounted to "too little, too late":** the lack of adequate external support undermined Zambia's reforms (Gulhati 1989: p50; Kamya 1990a; Fardi 1991). Aid and debt relief in support of intensive reforms turned out to be "too little, too late". The international machinery of foreign aid was fragmented (Gulhati 1989: ibid): many actors and numerous foreign agencies pursued diverse objectives— each bilateral donor had their own procurement and disbursement requirements (Kydd 1989: p135)— and efforts to manage them did not produce coherent outcomes. Kydd (ibid) points out that the Bank of Zambia and the Ministry of Finance simply did not have the leadership and managerial competence to make much headway through this maze of red tape. He further says most bilateral donors' slowness in releasing resources pledged for the auction became the subject of some acrimony between them and the IMF and the World Bank.

(b) **Technical mis-judgments:** Kydd (1989: p134) says there are also suggestions that the IMF made a number of technical mis-judgments. He

says a senior IMF official has admitted that it was too sanguine about trends in copper prices. He says another allegation against the IMF's competence is that it took insufficient account of the effects on the auction of the "forgiveness" offered to Zambian residents with illegal external holdings of foreign exchange— much of which had been generated by various forms of smuggling and bribery. This measure was quietly brought in at the time of the auction, on the ground that it gave Zambia access to free forex which could be used to finance imports. In the event— Kydd argues— it seems that substantial quantities of this forex may have been used to finance imports, which were then sold into a decontrolled market which had been import-starved, a situation which allowed very large Kwacha profits to be realised. These profits were then, so it is argued, recycled into the auction, to finance a further round of imports— and even healthier foreign accounts than before.

5.3.2.3 **On other influences**

(a) **Initial conditions:** the inherent problem Zambia faced at the beginning of the intensive reform effort was an extremely difficult one (Muntemba 1989: p116; Gulhati 1989: p48). Massive multiple shocks, the large number of policy and institutional distortions, as well as the acuteness of many of these distortions, would have required a truly heroic reform effort in any case— even some good luck. Issues were greatly complicated by the fact that Zambia's historical growth engine— copper mining— was sputtering and needed rehabilitation and, as we have argued consistently, replacement.

Gulhati (ibid) says the above formidable agenda was tackled by a weakened political leadership and an administration that was very short of skills, and that had been demoralised by falling compensation, shifting assignments, and the ad hoc policy-making style that had emerged. Furthermore, the policy consisted of several pressure groups (the powerful Mine Workers Union of Zambia, MUZ, commercial farmers, and the urban middle class) who had acquired a stake in the status quo and considerable muscle to resist reforms they perceived as a threat[6].

(b) **The "ownership" question:** Gulhati (ibid: p49) observes that reforms could not be sustained because the process underlying these reforms was flawed. The development of the policy package took place largely outside Zambia. A small group of Zambian officials and a few politicians spearheaded the programme based on a genuine belief in its merits. Other influential civil servants and politicians had very little basic understanding of the economics behind either the crisis or the reforms. Still other segments of the Zambian policy circle were hostile to the thrust of the reforms for distinctly ideological reasons— claiming that the medicine being applied contradicted with the socialist and welfare elements of Zambian humanist ideology (see also Hettige, Steel and Wayem 1991: p40).

(c) **Inadequate attention to priority areas:** as Kamya (1990a: p32) points out, the auction system could not guarantee that priority areas received adequate forex to operate at nationally desirable levels. The agricultural sector— the key sector in terms of Zambia's efforts to diversify its economy, to foster non-traditional exports, to create new employment opportunities and to achieve self-sufficiency in food production— received only $12 million during the entire auction period of 17 months (that is $700,000 per month) as compared to a FEMAC allocation of $34 million during a period of just 9 months (that is $3.8 million per month). Small-scale and up-coming commercial farmers were badly hit during the auction since they did not have the necessary Kwacha cover to participate actively in the auction market (Kamya: ibid; Ncube, Sakala and Ndulo 1987: p145).

During the 17 months of the auction the manufacturing sector received $110 million— compared to $165 million FEMAC-allocated to it between May 1987 and March 1988 (GRZ 1988a: p21-22). But as Kamya (ibid: p33) points out, there were problems of monitoring and controlling and directing the use of foreign exchange. Much of the $110 million allocated to manufacturing was instead used largely by Kwacha-loaded multinational companies to buy finished goods and to repatriate dividends and royalty fees, quite at variance with the objectives of the auction.

(d) **Unfavourable distributional consequences and IMF-riots:** the rapid depreciation of the Kwacha together with price and interest rate decontrol contributed to a sharp rise in inflation from 35 and 39 percent in 1985 to 52 and 58 percent in 1986 for the high and low income groups respectively (Kamya 1990a: p32). The high rate of inflation shifted incomes from the poor to the rich, intensified existing distributional inequalities[7], reduced people's purchasing power— especially since wages and salaries of an average earner did not rise by the same rate as inflation— and ultimately contributed to the IMF-riots of December 1986 and the system's eventual abandonment in May 1987 (see also Meijer 1990: p683).

We can summarise lessons from the failure of Zambia's forex auctioning experience in the form of a table as follows:

Table 5.2: Lessons from Zambia's 1985-87 forex auction experience

(1) Devaluation, whether by means of a fixed exchange rate or through the auction, is bound to be painful and unpopular. In order to prevent devaluation through the auction system from escalating, it is necessary to exercise strict control over the money supply. Otherwise it may be impossible to keep the exchange rate down to a level which the public will accept as realistic. Failure to do this may make the auction politically untenable (Sanderson 1987: p22).

(2) The Zambian experience provides food for thought on the question of the sequencing of reforms. In this connection three points can be made Kydd 1989: p142):

(a) In ambitious liberalisation programmes, in which "everything happens at once", there is a danger of spreading scarce human resources too thinly.

(b) It is important to tackle ideological/intellectual differences head-on. The costs of not doing so result in problems when a government implements a policy it neither believes in nor understands. This is not a call for a crude propaganda campaign, but for more emphasis and more care to be given to the policy dialogue.

(c) Producers who have previously been operating in tightly controlled sectors may initially be cautious about making investments in capital goods on the basis of judgments about markets in which resources are costed at their full scarcity price. This is an interpretation of Zambian commercial farmers' vociferous complaints about interest rates and other input costs.

(3) The appropriateness of the foreign exchange auction system for Zambia at that point in time had been questioned at the World Bank's Board presentation of the industrial loan package. Concern had been expressed, particularly, about the debt service and fiscal implications of the auction system. Staff assurances were given about the government's capability to control the budget "provided the exchange rate could be stabilised at about the prevailing rate— then K6 to a $1". As it turned out, by the end of 1986 the Kwacha had depreciated to K19 to a $1 (Hettige, Steel and Wayem 1991: p40).

(4) Policy packages have to be "localised" and have to be perceived as indigenous initiatives (Gulhati 1989: p50).

(5) Much more effort needs to be made than was the case in Zambia to build consensus among "influential" actors and to educate the public. The imperative of securing a consensus might require altering the technical design of policy packages to accommodate vested interests without undermining the main thrust of the reform (Gulhati: ibid).

(6) Donor coordination and financing adequacy vital: it will be recalled from section 2.1.1 of chapter 2 that in 1984— a year to Zambia's auction experiment— the World Bank's *Joint Programme of Action* (JPA) Report:

(a) Called for more explicit and monitorable commitments by recipient governments and donors to implement their respective responsibilities under an agreed programme of action, and

(b) Urged donors to provide adequate, timely, and sustained financial assistance to programmes of major economic reform.

Both coordination and adequate foreign exchange for the auction were crucial in Zambia's experiment, yet they were lacking. In comparing the adjustment experiences of Zambia and Ghana, Jaycox (1991: p359) admits that:

"In the case of Ghana, there is the more happy circumstance of adequate funding matched by resolute implementation of reforms. This type of programme should be sustainable throughout Sub-Saharan Africa supported by the kind of efforts that have been made by the aid community as a whole".

(7) Political will: avoidance of technical weaknesses in the design of the policy package would also have enhanced the probability of success. However, while these factors could have made a substantial difference, it is not clear that they would have been decisive in determining the outcome. Much more basic than these factors is the requirement of political entrepreneurship of a very high order to successfully orchestrate such a reform and to sustain it (Fardi 1991: p349).

Source: the analysis in section 5.3; and Sanderson (1987: p22); Kydd (1989: p141-142); Gulhati (1989: p49-52); Hettige, Steel and Wayem (1991: p40); and Fardi (1991: p348-350).

5.4 November 1991: Exit Kaunda, Enter Chiluba: The MMD's 1992-94 SAP

In November 1992 a new government— the Movement for Multi-party Democracy (MMD)— replaced the United National Independence Party (UNIP) in what were generally judged to be free and fair elections. The elections— coming after 27 years of single-party politics— were the direct result of what we described in chapter 4 as "political conditionality".

In early 1992 the new government unveiled a new adjustment programme, the centre-piece of which is contained in both the 1992 budget and especially the 1992 Policy Framework Paper— PFP. The new programme centred around economic liberalisation involving, but not restricted to:

relaxation of the regime of trade and payments control; reduction in the extent and coverage of commodities covered by price fixation, price controls, price monitoring, and enforcement by the various GRZ and quasi-GRZ agencies; privatisation of ZIMCO and INDECO; and further strengthening of the incentive system for production and exports by removing distortions and rigidities; and elimination of government subsidies— especially on maize.

5.5 Post-Kaunda policy initiatives— early successes

5.5.1 **Liberalisation:** since coming into power, the MMD has moved to liberalise the economy so swiftly that some people are skeptical about the outcome of this "shock-therapy" or "jump/kick-start"[8]. As Mike Hall reports in The Guardian (2 April 1993: p16) the zeal with which the MMD government has approached reforms has surpassed even that of Zambia's financiers, prompting the World Bank resident representative to urge caution and greater concern for the social consequences of adjustment. In manufacturing the early impressions are that productive capacity has been hurt by the flooding of imports on the local market in the absence of sufficient structural adjustment support to local capacity.

Some firms have no doubt had to close shop because of hopeless inefficiency, but the liberalisation of exchange and interest rates coupled with imports has meant that even better performing firms with debt have been caught in the credit crunch. The result has been what Henley (1992) describes as the **double-whammy**— firms being hit from both ends as they have little money to buy raw materials, their bank debts are called-in, and at the same time liberalisation has hit the market with competing imports.

The above concerns notwithstanding, some useful positive developments are already apparent. Chief amongst them are the following:

(a) The liberalisation of foreign exchange dealings has virtually closed the gap between the retention/market rate and the black market rate. The retention rate is the new exchange rate after the MMD allowed

non-traditional exporters (NTEs) to retain 100 percent of their forex earnings, beginning in January 1992. Its value is determined by the beneficiaries under the export retention scheme who sell their forex to importers of goods and services.

To encourage more forex inflows through the banking system (non-traditional exporters under the retention scheme have been reluctant to sell their forex to BOZ, for fear of difficulties when they want to use hard currency themselves) GRZ has given tourists, non-residents, diplomats, expatriates and Zambians with forex the freedom to sell it to authorised dealers at the retention rate on a "no-questions-asked" basis.

(b) Investment community: it will be recalled that a major objective of economic liberalisation is the hope that the flow of foreign investments into the country will increase, because of the easing of trade and exchange restrictions (Okogu, 1989). Coupled with the country's new political freedoms, liberalisation has led to the sort of interest and visits from would-be investors —the Japanese, South Africans, Europeans and Americans— that one hopes will translate ultimately into actual investments into Zambia.

(c) Reduction of external debt from $7.2 billion to $6.5 billion within 7 months of taking office (News From Zambia, 6 June-8 July 1992) though, as we show elsewhere, the bulk of the reduction started under UNIP and, more importantly, has been as a result of debt cancellations. The latest on the debt issue is that the Paris Club creditors have agreed to write-off half of this $6.5 billion debt, with the rest of the debt rescheduled over 23 years after a grace period of 6 years (New African, December 1992).

5.5.2 **Donor-community sigh of relief:** the swift market-led moves initially led some donor-community countries to believe that perhaps in Chiluba they now had someone in Lusaka's State-House that they could trust to carry the needed multifaceted economic reforms through. In interviews held by this author in Lusaka with both Mr John Hill (new IMF resident representative) and Mr John Innes (World Bank resident

representative)— in May 1992— it became apparent that they gave high marks to the initial Chiluba economic initiatives. So much so that one clearly got the impression that if they had a choice between Zambia and some other Sub-Sahara African nation, both the Bank and Fund would bet their dollars on Zambia becoming the next blue-eyed-boy in Africa. At the 23-24 March 1992 Consultative Group for Zambia meeting in Paris, attended by both Mr Hill and Mr Innes, the 13 donors and international institutions gave Zambia its full pre-drought requirements of $1.4 billion, revised upwards to $1.7 billion to accommodate the effects of the drought (New African, May 1992). "There was a lot of Goodwill in Paris towards Zambia because of the country's democratic process and economic policy initiatives", Mr Hill admitted to this author.

5.5.3 **The Privatisation Programme:** refer to chapter 6.

5.6 **Early MMD short-comings**

5.6.1 **Revocation of producer-price incentives:** after announcing an increase in 1992/93 producer prices from K1,200 per 90kg bag of white maize to K3,000 per bag plus an K800 bonus (Times of Zambia, 13.6.92), the MMD government within two months withdrew these incentives to the outrage of the Zambia National Farmer's Union. The Union accused the MMD of false promises and warned that maize would continue being sold across borders (no longer illegal due to liberalisation?) where it fetches better prices. Farmers had supported the removal of subsidies on fertilisers in the expectation that the season's prices would be attractive enough to build-up capital for the coming season. The irony of the revocation is that the MMD government has incessantly attacked the former UNIP government, since the election period, for lack of foresight in the area of agricultural incentives, of which better producer prices is by far the most vital.

5.6.2 **Devastating drought:** in his writings on famine and general economic disaster in Africa, it has become fashionable for R H Green to quote, appropriately, the UNICEF poster which runs: **"What do you want to be when you grow up?"**, the African child's answer being **"Alive".**

Although the country came nowhere near the disasters experienced by Sudan, Ethiopia and lately Somalia in recent years, the worst drought in Southern Africa in 100 years (African Business, June 1992: p27) which started at the end of 1991 did not spare Zambia. Three of the country's best farming Provinces (Southern, Eastern and Lusaka) and the Western part of the country were devastated, putting paid to not only hopes of a bumper harvest but also any hope of a smooth take-off of the new, 1992-1994 MMD-SAP. The drought reduced agricultural production to its lowest in post-independence times— as we shall see later— in turn adversely affecting agro-based industries and exports— all of which exacerbated the supply capacity of the economy and the transitional effects of adjustment. The resulting scarcity of raw materials and of essential commodities started to push up prices and exacerbated the economy's inflationary trend.

Our latest information from Zambia indicates that the country has had normal and generally adequate rains during the 1992/93 planting season. But the reverberations of the 1991/92 drought will continue to affect the SAP for a long time. The country has imported and will continue to import huge quantities of maize and other foodstuffs, a situation likely to strain the BOP. Earlier targets with regard to export earnings, reductions in the budget deficit, and GDP growth as contained in the PFP and the budget were no longer realistic due to the effects of the drought. More importantly, perhaps, the current SAP which runs to 1994 is likely to be prolonged by as much as 2 years lost to the drought and its costs. By that time, of course, the MMD government will be up for re-election. Erudition is not necessary to demonstrate that the drought has raised the stakes for the MMD government.

Although drought-related international aid has been pouring into Lusaka since March 1992, Zambia's post-drought SAP-financing needs are likely to be much larger than anticipated.

5.6.3 **Budgetary and Administrative indiscipline**

5.6.3.1 **Buying toys for the Generals— military expenditure:** in its first

budget since coming to power the MMD announced a staggering K15 billion 1992 expenditure package for the armed forces. For a nation with such a weak economy and neither at war nor facing military incursions from anyone, this figure was condemned by Zambians as excessive and unjustified. As if this were not enough, 3 months later the Finance Minister exempted all defence personnel from paying duty on locally produced beer, non-alcoholic beverages and cigarettes (Times of Zambia, 12.5.1992); and in May of the same year their salaries were raised by a staggering 500%. This gives support to Susan George's assertion that it is precisely the poorest countries— especially those in Africa— with large debts to service that tend to spend most heavily on national security. Given that the total number of personnel involved is undoubtedly large, given too their known affinity for both the bottle and stick, this measure too has the ingredients of budgetary indiscipline.

5.6.3.2 **Settling old scores with Kaunda:** in a rather unfortunate development, the Chiluba government has from day one set about undoing almost everything Kaunda did. Examples abound, including the search of Kaunda's belongings in early 1992 under suspicion he may have stolen State House reading material. The search yielded nothing. Two more serious examples will suffice here. First, against the advice of 74 percent of the March 1992 Kitwe conference delegates (including the top economists and business owners in the country) the government went ahead and changed the Kwacha in February 1993, a move that cost the nation an unnecessary $7 million all because the currency bore Kaunda's portrait.

The conference delegates said they did not mind Kaunda's head continuing to be on the currency, but more to the point they reasoned that given the poor state of the economy, the nation could ill-afford such an expensive and unnecessary[9] currency change in the foreseeable future. Such funds, it was resolved, should instead have been used to alleviate the social costs of SAPs and the effects of the devastating drought. The MMD's decision further lacks cost-consciousness given that Zambia had another costly currency change only 3 years earlier, announced by the Kaunda government in the second half of 1989. Aimed

at reducing the amount of money then circulating on the market— especially by cutting considerable margins generated by black-market operations, smuggling and tax evasion (GRZ 1989b: p23)— the Kaunda money change evidently failed to achieve any of its objectives (see also African Business, April 1993).

Secondly, barely 6 months before his term of office as Governor of the Bank of Zambia expired, Kaunda-appointed Canadian banker Jacques Bussieres had his contract prematurely terminated by President Chiluba. For a man whom independent observers concede was efficient, liked by professionals in and outside the BOZ, and who helped restore international credibility to the BOZ, grounds for his removal were as flimsy as "too connected to Kaunda". Ironically his Chiluba-appointed successor— Dominic Mulaisho— was himself dismissed as economic adviser to Kaunda earlier. A creative novelist, this non-banker economist's only other credentials are reported to include part-time consultancy with the World Bank.

5.6.3.3 **Policy instability:** barely 3 months after Finance Minister Emmanuel Kasonde devalued the Kwacha by 30% (to K125 = $1) and promised to "keep it stable for some time", the rate started slowly creeping upwards— crawling— unannounced. The simple lesson is that ad hoc measures that are soon replaced by yet more panicky ones are injurious to the economy, as they drive the productivity and investment steam out of industry.

5.6.3.4 **Patronage in appointments rife:** as Baylies and Szeftel (1992) point out, many ZIMCO and INDECO chiefs have been summarily sacked, even where no concrete evidence of corruption has been produced. In their place some cabinet ministers have appointed supporters of questionable merit and, in one or two cases, even relatives. During the 1992 fieldwork in Zambia this author remembers the strike-ridden case of one cabinet minister who said of the female Managing Director of a parastatal company he had just appointed: **"if I do not appoint people from my own province, who do you think will?"**. Many Zambians are already wondering, for this and various other reasons, whether MMD

replaced UNIP or simply reproduced it.

5.6.3.5 **Threats of an MMD credibility Gap:** the MMD is an alliance of trade union leaders and local capitalists, whose earlier unity was rooted in the desire to wrestle power from Kaunda. For a rounded analysis of the factors that influenced the Zambia Congress of Trade Unions— ZCTU— and affiliated unions to take part in the formation and development of the MMD and what appears to be a peculiar and fragile alliance of labour with business interests, reference should be made to Alexander's draft report (1992: p11).

The two groups are said to wield considerable influence over Chiluba, whom they financed in the first place. There is understood to exist a kind of **Chiluba-G7**, seven very powerful cabinet ministers who— having bankrolled the MMD election campaign— are essentially untouchable. These **"Minister-Tycoons"** have attracted criticism from Zambians, that an atmosphere has been created where some ministers are now making "Personal Adjustment Programmes" [PAPs], ahead of national economic recovery. One of the G7, nick-named **"King Cobra"** because of his knack for stunning revelations about scandals and mini-scandals in and outside government— he is thought to have contributed heavily to the downfall of UNIP— was early in 1992 earmarked for investigation himself by the Anti-Corruption Commission (ACC) for contract impropriety. The probe never quite took off.

The resignation in July 1992 of two Ministers (Akashambatwa Mbikusita Lewanika in charge of Science, Technology and Vocational Training; and Baldwin Nkumbula in charge of Youth, Sport and Child Development) accusing the government of, inter alia: compromising the norms of democracy, wide-spread ministerial financial irregularities, lack of openness in government, and the failure to encourage a new political culture based on tolerance (The Guardian, 21.7.92, New African, September 1992) shook the country, pointing to an MMD credibility gap. Akashambatwa was regarded as something of an intellectual power-house in the nation and MMD.

Apparently stung by the resignations (which attest to the fragility of the MMD coalition) and also under pressure to show that the image of a weak President people have associated him with is unfounded, President Chiluba has since sacked two ministers for offences ranging from racial remarks (MMD had two white full cabinet ministers) to anomalies in buying South African furniture by the other. The latter case was a clear admission by Chiluba that corruption was eating at the heart of his cabinet. Another criticism of the MMD, offered by Changwe (1992), concerns the President's reluctance to amend the Republican Constitution, which apparently gives him enormous powers— thus rendering Parliament more or less irrelevant.

5.6.4 **Crisis of Expectations— unfulfilled and unfulfillable expectations:** the MMD government assumed power on an anti-Kaunda populist ticket, not so much on any finely articulated economic agenda[10]. A wide gap exists between the huge expectations they created among the poor majority vis-a-vis economic improvement, and their ability to satisfy these expectations in the short run. Writing in the November 1992 edition of African Business Chiposa notes, for example, that despite earlier optimistic assertions that they would turn the economy round, there was not much for the people to smile about 12 months later. Maize meal— the staple food— was going at K2,000 in November 1992 for a 25kg bag, up from K249 a year earlier; while a kilogramme of meat was over K500, up from K260 a year earlier.

Wage increases have not been sufficient to compensate for the high cost of living. All this, notes Chiposa, is in contrast to election campaign promises to bring down the prices of mealie meal. This author recalls "King Cobra" promising to quit or sink the MMD if his party did not slash the price of maize meal when elected. He has done neither, perhaps still enjoying the spoils of victory.

Queues for essential commodities such as sugar and cooking oil have disappeared. Zambian retail shops are also well-stocked— both for the wrong reasons: not because industrial capacity utilisation rates have suddenly improved, but rather because there has been an effective drop

in demand brought about by **"the flight of the Kwacha from peoples' pockets"**. A direct result of the drastically falling standards of living has also been the rise in Zambia's crime rate.

5.6.5 **Strong Labour unions:** the Zambia Congress of Trade Unions (ZCTU) is perhaps the most powerful labour movement in Southern Africa after the South African Congress of Trade Unions (COSATU). President Chiluba, as former and longest serving chairman of ZCTU, shares responsibility. There is no pay negotiation with GRZ, in recent years, in which the largest public service unions in the country and the powerful Mine workers Union of Zambia (MUZ) have come out empty-handed. In 1992 they demanded a 600 percent pay rise, eventually settling for 195 percent. Justified as their pay demands may be in principle— in the light of worsening economic conditions— the strong point to be made is that in the absence of a corresponding increase in industrial production, productivity and the productive base, the result has been a further fuelling of inflation. This almost led to a fall-out between Kaunda and former BOZ governor Jac Bussieres, the latter furious because said salary increments put paid to his efforts to keep inflation under check between 1989 and 1991.

Under the MMD, evidently, very little has changed, the rate of industrial strikes has reportedly gone up. In the first 9 months of MMD rule, for instance, the country was rocked by a record 56 strikes (New African, December 1992) by workers complaining about worsening economic times.

The IMF resident representative in Lusaka believes that the acid-test for the Chiluba government will be its ability to keep wage and salary increments in line with national resources. When we interviewed him in Lusaka in May 1992 he said:

"...the real acid test for the new government will be on how it deals with the unions, who are right now demanding outrageous wage increments in the region of 600% or so. The issue is not that salary increments should not be given, but agreeing to such huge demands will simply kill-off the inflation-reduction initiative."

5.6.6 **"From KK, with Love"**: Kaunda bequeathed to Chiluba an almost empty treasury. That is not news. Close to half of Chiluba's cabinet are people groomed by Kaunda. That, too, is not news. Allegations abound— in Zambia— that most of these have tainted pasts, that in fact Chiluba's cabinet is not as clean as people think. What may be news is the tone with which Chiluba has promised to deal with corrupt people in his government. He has warned he will dismiss any minister found wanting, stressing that Zambia can ill-afford untrustworthy people in the corridors of power.

Zambians are praying that, perhaps second-time-lucky, they will be reading more than a President's lips. So far, it would seem, the President is not in full control. He admitted in early 1993 that some of his Ministers are behaving like pseudo-Presidents. The question the rest of us are asking is: why can't he deal with them? The answer, of course, is that they financed his election in the first place, and he may be afraid of "shooting himself in the foot"— to borrow an expression from (UK) Labour Leader John Smith.

The MMD's short-comings outlined above make it difficult for anyone to point at this early stage to a decisive break with the weaknesses of the Kaunda era. We are, in essence, casting some reasonable doubt as to whether mass calls for "the democratic model" in Africa represent a shorthand for "responsible, responsive and capable" government. In his special report on Zambia Mike Hall (see The Guardian, 2 April 1993: p15) goes so far as to suggest that after 18 months in office:

"... the flame of democracy that many hoped would serve as beacon to other African countries has begun to fade in a fog of political mistakes and unfulfilled promises... little has been done to change the political culture inherited from nearly two decades of one-party rule... (there are) growing fears that the much-trumpeted transition may amount to little more than a change of faces".

5.7 Chapter Conclusions

It is fair to suggest that this chapter has made four important contributions. First, any theoretical formulation relevant to explaining Zambia's current structural rigidities compels a historical socio-economic perspective. In outlining the myriad causes of the country's structural crisis, we reject the sometimes simplistic notion that diagnosis and prognosis are uncomplicated.

Secondly, in what we hope will be a widely quoted table by future researchers— number 5.1— we might well be among the first to outline (albeit concisely) Zambia's adjustment measures in the ten years between 1983 and the first quarter of 1993. Third, out of table 5.1 emerged an equally important discussion: the country's 1985-87 foreign exchange auction experiment, covering a number of reasons why it was doomed to fail from the beginning. It was abandoned on labour day in May 1987. Another table we hope future researchers will quote widely— number 5.2— gives what we consider to be the main lessons for other adjusting countries to learn from Zambia's auction experiment.

One of the major lessons is that it is not sufficient for government representatives to "buy" a reform package (Hettige, Steel and Wayem 1991: p40; and Fardi 1991: p350). Their ability to persuade a broader group of major actors and their ability to remain long in positions to influence its implementation may be more important. Thus, for the programme to be sustainable, it must contain adequate incentives for the political base of the government to remain committed until the reforms begin to demonstrate positive results.

Finally, ours may be one of the first studies to give what we hope is an adequate initial assessment of the new government's economic agenda, including the many socio-political and economic challenges it faces. In chapter 6— next— we will elaborate on one of these challenges— the announced privatisation of 134 ZIMCO and INDECO parastatal companies. That discussion will be preceded by a background description of Zambia's industrial sector, including its structural rigidities.

FOOTNOTES

1 Stefanski (1987: p47) indicates that Zambia's commitment to full participation in honouring the UN-sponsored economic sanctions against Rhodesia affected the pace of the development of public enterprises in two ways: (a) it precipitated the complete break-up of the few remaining jointly owned firms and hence the setting up of Zambia's own. For example, Zambia Railways was formed in 1967 as a result of the break-up of the Rhodesia Railways; Zambia Airways as a result of Central African Airways corporation; and (b) it precipitated Zambia's policy of trade disengagement with Southern Africa, a move which resulted in the creation of several new SOEs such as Zambia Tanzania Road Services, Maamba Collieries, and TAZARA.

2 Killick (1992b: p48) justifies this position by asking the question:

"If the initial (colonial) conditions were so oppressive, how can it be that most indicators suggest relatively good economic performance in the 1960s and into the 1970s, with the worst coming later? Is it not implausible still to be blaming colonialism thirty years after independence?".

3 The World Bank (1986b: p107) defines external debt as debt that has an original or extended maturity of more than one year that is owed to non-residents, and that is repayable in foreign currency, goods, or services. A distinction is made among: (a) public debt, which is an external obligation of a public debtor— including the national government, a political sub-division (or an agency of either), and autonomous public bodies; (b) publicly guaranteed debt, which is an external obligation of a private debtor that is guaranteed for repayment by a public entity; and (c) private non-guaranteed external debt, which is an external obligation of a private debtor that is not guaranteed for repayment by a public entity.

4 Approximate regime types between 1982 and 1990 have been suggested by Seshamani (1990: p7). The rest is this author's.

5 For a discussion of the operations of the auction system see, among others: Ncube, Sakala and Ndulo (1987: p142); Kydd (1989: p133); and Sanderson (1987).

6 Kydd (1989: p135) reports also that the coalition of groups which perceived themselves to be losers from the auction was much more powerful. Among the economic losers were the Party (UNIP) elite and similar groups in the upper ranks of state industry and the government service who— accustomed to considerable foreign travel— suffered the humiliation of a collapse in the dollar value of their salaries and perquisites. Their concerns converged with those of the urban masses, who were fearful of much increased maize prices; a danger which they perceived— quite correctly— to be somehow tied up with the IMF and the auction.

7 Seshamani (1987: p40) laments, for instance, that:

"The fall in the internal and external value of the Kwacha during the auction period created an anomalous situation in which goods and services within Zambia were unaffordably expensive in Kwacha terms but ridiculously cheap in terms of hard currencies. Thus, while most of these goods had been priced beyond the reach of the bulk of the indigenous masses, for foreign tourists and residents whose earnings were predominantly or wholly in foreign exchange, the country had turned into a consumer's paradise".

8 Alexander (1992: p14) for example rightly mentions the considerable concern, in the labour movement, that the free market reforms, removal of subsidies and privatisation of SOEs is going too fast and too far, creating appalling social and human costs— including prospects of increasing unemployment— and that the MMD government is **"striking while the iron is hot"** while it retains sufficient popular support.

9 The appearance of a currency, we contend, has nothing to do with economic well-being, as the source of strength for any currency lies elsewhere: in production and good overall economic management.

10 We argue here that MMD's current economic agenda, as articulated in both the budget and especially the PFP, is no more than a result of fine-tuning the foundations laid by the Kaunda government. There are no radically new sets of ideas, only the commitment to their implementation seems distinct. For example, in February 1991 IMF Managing Director Michel Camdessus was in Zambia to review the updated, Kaunda-era PFP covering 1989-1993. Not only was this the basis for MMD's 1992-94 PFP but, quite significantly, Camdessus hailed the Kaunda programme as an excellent blueprint for improving relations between GRZ and the multilateral organisations.

CHAPTER 6: ZAMBIA'S INDUSTRIAL SECTOR: FROM PRIVATISATION TO NATIONALISATION AND BACK

6.0 Chapter Objectives

We provide, in this chapter, a brief background description of Zambia's industrial sector, including some of the structural rigidities not mentioned or elaborated upon in chapters 2 and 5. We shall then provide highlights of the general arguments for and against privatising state-owned enterprises (SOEs)— a subject that is now high on the Bank-Fund conditionality menu. This discussion is meant to place in perspective the final focus of the chapter— the nature and extent of the privatisation debate in Zambia. This is by far the most talked about adjustment measure in the country since the beginning of 1992.

6.1 Background description of the industrial sector in Zambia

6.1.1 The period to 1964

Industrial and formal administrative activity in Zambia during the transition to independence was still characterised by insignificant— almost non-existent— indigenous participation. This area was the exclusive preserve of the private, white-settler minority— this is the sense in which we refer to the first privatisation in the chapter title. Lall (1992: p108) also says that African industrial growth was launched primarily by foreign companies (or resident non-Africans) to serve local markets or process raw materials for export. But as Muzandu (1985: p283) notes, several factors conjoined at independence to create favourable conditions for increased local participation.

The dissolution of the 1953-63 Federation of Rhodesia and Nyasaland— and the acquisition of independence from Britain in 1964— meant that the system of inter-territorial transfers of (copper) revenues (which we discussed in chapter 5) came to an end. Zambia recovered the right to formulate its own industrialisation[1] policy objectives and instruments— the latter manifested in the power to impose effective protective tariffs upon cheaper and superior imports from Zimbabwe and South Africa.

The return of buoyancy to the world demand for copper coincided with the recovery of the main mineral rights from the British South African Company (BSA). Later, between 1965 and 1975, other factors emerged to make manufacturing one of the most rapidly growing sectors. One of these, Unilateral Declaration of Independence (UDI) in Zimbabwe in 1965, added urgency to the import-substitution industrialisation (ISI) programme and also to the effective degree of protection that the local manufacturers obtained as import licensing— introduced as part of the sanctions effort— progressively prevented the purchase of goods from Zimbabwe and South Africa

6.1.2 From 1964 to the 1968-69 Mulungushi-Matero Economic Reforms

In a bid to further indigenise control of Zambia's socio-economic destiny, the Kaunda government in 1968 announced it would place in state hands or nationalise all vital industries— from mining, transport, utilities, education and health to manufacturing. This came to be known as the 1968/69 Mulungushi/Matero Economic Reforms. Initially, the nationalisation involved assumption of 51 percent share ownership in about 25 firms (Kaunga 1992: p1). The mining companies followed in 1969, during the Matero Economic Reforms.

The 1968-69 nationalisation placed 80 percent of the Zambian economy under government control, largely through the giant Industrial Development Corporation, INDECO, itself later placed under the new holding conglomerate, Zambia Industrial and Mining Corporation, ZIMCO. The other 20 percent remained in private hands, hence the label of a mixed economy. There is general agreement in the literature that in Zambia's case direct state participation in industry through INDECO brought about the establishment of a broader industrial base than could perhaps have been achieved under private enterprise alone. By the 1970s domestic manufacturing was larger than that of other countries in the sub-region except South Africa, Kenya and Zimbabwe (see *World Bank Staff* in Meier, Steel and Carroll 1989: p60).

But as we shall see in section 6.2, structural rigidities inherent in the

above development of the sector— and other later developments including the prolonged control of commerce by the state— fizzled out the earlier growth in manufacturing in the years that followed.

6.1.3 Reasons for Nationalisation

Among the major official reasons advanced for the nationalisation (see, among others, Kaunda 1969, Kaunga 1992, Cunningham 1985) were: **(a)** the desire by GRZ to control the "commanding heights" of the economy with a view to dictating the pace and direction of development, **(b)** concern over the dominance of foreign investors and their lack of interest in re-investing in the economy as manifested by massive repatriation of profits, **(c)** the desire by GRZ to break-up the monopoly pricing cartels which were thriving at the expense of the people, **(d)** the desire to indigenise the Zambian economy by promoting local entrepreneurs. The absence of indigenous entrepreneurs was initially to be made up for by the state's own involvement.

6.1.4 Manufacturing performance to 1982

The independence of Angola and Mozambique in 1975 and of Zimbabwe in 1980 and the re-opening of Zambia's southern route with the latter in 1978 brightened the future for the industrial sector in terms of easy and cheaper access to and from the sea, and industrial inputs from both Zimbabwe and South Africa. Coupled with the other favourable factors outlined earlier— such as favourable copper prices— ISI spurred rapid growth in manufacturing in the period between 1964 and 1982.

As Karmiloff (1988: p6) points out, the pattern of manufacturing[2] sub-sectoral growth was generally uniform in expanding to the watershed year of 1974, led by chemicals, plastics, and rubber, followed by metal products and other manufacturing. Together these sub-sectors accounted for about 40 percent of total manufacturing output.

Our tree diagram in chapter 3 shows that 28 (65 percent) of the manufacturing firms surveyed for this study were in fact established

during the period to 1982, lending further credence to the predominance of ISI between 1964 and 1982. During this period Muzandu (1985) and Simson (1985) note that GDP attributable to manufacturing increased by threefold from 6 percent to 18 percent, while the sector grew at an average annual rate of 19 percent— the highest in the economy then.

Further evidence of the important role of manufacturing in Zambia is provided by *World Bank Staff* (see Meier, Steel and Carroll 1989: p60). They point out that as of 1982 Zambia's manufacturing sector was large compared with that of other SSA countries, contributing over $600 million to gross domestic product in 1982 and employing nearly 60,000 workers. The 18 percent share of manufacturing in GDP was higher than any other country for which data was available except Zimbabwe— and only Zimbabwe and the Ivory Coast had higher per capita GDP originating in manufacturing (ibid: p60). They further note that although Zambia ranked nineteenth among SSA countries in population and twelfth in total GDP, its manufacturing output ranked sixth. They attribute this high ranking to a number of factors, including:

(a) The huge demand generated by the local mining industry.

(b) The natural protection afforded by its land-locked position— though they do not explain how this is so.

(c) The pattern of industrialisation: they argue that industrial production became increasingly diversified up to 1982, moving from a predominance of consumer goods to a greater share of output in intermediate and capital goods and with increasing contributions from previously negligible branches of industry.

(d) High tariff levels and import licensing; with state-controlled enterprises receiving additional support from cross-subsidisation as and when required (Karmiloff 1990: p298).

6.2 **Structural rigidities of the Sector**

In addition to the rigidities discussed in the first part of chapter 5, the manufacturing sector has also experienced the following rigidities.

6.2.1 **Raw material import dependence:** Zambia expanded import-intensive manufacturing industries during the 1970s. Accounting for about 55% of

the growth of manufacturing output (Muzandu, op.cit), ISI was clearly the major driving force behind industrial growth during this period. This situation would, in later years, prove costly in terms of continuing dependence on imported raw materials and intermediate inputs, as illustrated by the case of Mansa Batteries Limited in appendix 5.1 of chapter 5. In section 2.1.2 of chapter 2 we also saw how the dependence of Africa's import-substitution industries on imported inputs has made capacity utilisation vulnerable to fluctuations in the availability of foreign exchange— a point emphasised by among others Steel and Evans (1984: p53), and Meier, Steel and Carroll (1989: p3).

6.2.2 **Primary exports:** what exports the manufacturing sector embarked on had very little value-added, consisting predominantly of primary commodities. Manufacturing value-added (MVA) is generally defined as the difference between the value of output and the cost of the inputs used to produce it (Meier, Steel and Carroll 1989: p xvi). The *World Bank Staff* (in Meier, Steel and Carroll 1989: p60) point out that although Zambia's industrial sector is relatively large and advanced compared with that of other African countries, its manufactured exports are exceptionally small.

The largest amount of exported manufactures achieved by Zambia was $3.3 million in 1974 which was more than only eight out of 34 African countries for which data were available. The six principal export products as of 1982 were cement, sugar and molasses, copper cables, men's wear, crushed stone and lime, and explosives. Manufactured goods made up only 1.3 percent of Zambia's exports in 1977 and 0.7 percent in 1980, and they represented only 0.6 percent of gross manufacturing output in 1980 (ibid: p66). Karmiloff (1990: p306) says that in subsequent years manufactures barely exceeded 2 percent of the value of total exports.

As pointed out in chapters 1 and 2, we shall be interested to find out in later chapters how the export sector— especially non-traditional exports— has performed in recent years.

6.2.3 Nationalisation-inspired rigidities

In the 1968-69 Mulungushi-Matero reforms, the government set itself the task also of: **(a)** decentralising industrial location away from the line of rail towns from Livingstone to Mufulira, **(b)** encouraging labour-intensive techniques of production and small scale industries utilising domestic materials, and **(c)** promoting import-substitution of intermediate products and of essential consumer goods. But as Karmiloff (1988) observes, these politically-determined objectives were not realised for want of feasible strategies for attaining them. Two fundamental issues were not addressed, namely: (i) how to develop an alternative source of financing new manufacturing investment, as opposed to the historical, copper-generated investment, and (ii) how to promote manufacturing activities that would be *net* earners of foreign exchange. Further industrial diversification was also discouraged by high exchange rates and what Karmiloff (1990: p299) calls the stringency of price and foreign-exchange controls.

A second wave of nationalisations took place during the Kaunda era, the seizure of some 13 milling companies in 1987— soon after the 1986 IMF food riots that left close to 30 people dead.

The foregoing nationalisation-inspired rigidities are akin to what Killick (1992b) has described as the pervasive weakness of SSA's post-independence period: the expansion of the economic role of the state beyond its capacity to operate efficiently.

6.2.4 Blow-hot, blow-cold GRZ attitude towards the private sector:

Kaunda's relations with private enterprise in Zambia (which is dominated by residents of Asian and European extraction) were characterised not by permanent cordiality, but rather by mutual distrust and unease. Kaunda (1969: p51) was particularly concerned with what he called:

"Our friends who have kept only one foot in Zambia in order to take advantage of the economic boom, the other in South Africa, Europe, India or wherever they come from, ready to jump when they have made enough money, or when they think that the country no longer suits them".

And so it was that when devaluation and price de-control were tried under UNIP-SAPs and the social costs quickly surfaced, private enterprise featured prominently on Kaunda's blame-list. The seizure of private milling companies after the 1986 IMF-riots goes a long way to exemplify this. Private enterprise, on its part, was continuously incensed by what it saw as Kaunda's blow-hot, blow-cold attitude towards it.

6.2.5 **Captivity to the mining industry:** the dependence of manufacturing on local mining activity for sale of output (see section 6.1.4) and for foreign exchange to import inputs has meant the sector's performance has fluctuated with the fate of copper exports. In 1975, for instance, copper prices fell by 40 percent and copper production fell by 9 percent. The impact was severe on the balance of payments, the economy in general, and particularly on manufacturing output which fell by nearly 12 percent (Meier, Steel and Carroll 1989: p60).

As a result of the nationalisation-inspired rigidities such as those of Zambia— and those of a more general nature discussed in chapters 2 and 4— privatisation of state-owned enterprises (SOEs) has in recent years risen on the Bank-Fund conditionality menu. In the following two sections we explore the general arguments for and against privatisation. After that we shall be ready to introduce the Zambian privatisation debate— in section 6.5— which is currently perhaps the most talked-about subject in the country.

6.3 Criticisms of SOEs and the case for Privatisation

As a definition, privatisation describes a range of different policy initiatives designed to alter the balance between the public and private sectors (Cook and Kirkpatrick 1988: p3), whether it is referred to as de-parastatalisation, de-subsidisation, de-nationalisation, divestiture, or de-monopolisation of SOEs. A change in the ownership of an enterprise (or part of an enterprise) from the public to the private sector is the most common form.

Denationalisation, or divestiture— the sale of government-owned assets to private buyers— can proceed in a number of ways. In the developed North, where capital markets are well developed, it can be brought about by the sale of all, or part, of the newly privatised enterprises' equity to the public. However, in most third world countries, where capital markets are rudimentary or non-existent, denationalisation is more likely to involve the sale of the enterprise as a complete entity. Denationalisation may also take the form of joint-ventures, which introduce a private sector involvement into the public enterprise. In extreme cases, divestiture may involve the abandonment or formal liquidation of the SOE.

A second form of privatisation, deregulation, involves demonopolisation of activities previously restricted to SOEs (Butler 1985, Cook and Kirkpatrick 1988). Market entry restrictions are removed, a move aimed at allowing the free interplay of market forces, enhancing competition. No transfer of ownership of assets is actually involved, and the new entrants succeed or fail solely on their ability to serve the public.

Third, the provision of a good or service may be transferred from the public to the private sector, while government retains ultimate responsibility for supplying the service. Franchising, or contracting-out, of public services, and the leasing of public assets to the private sector are examples of this form of privatisation.

Finally, in another form of privatisation— vouchers— the government also continues to fund the service. But instead of a government agency giving a contract to a specific firm to provide the service, it gives the users of the service the means— probably a voucher— to purchase the service in the open market. In this way, the government provides individuals with the power to become consumers. This approach is most appropriate in cases where a healthy market for a service exists but where households have insufficient income to obtain adequate supply, for instance in education. As with contracting out, vouchers do not reduce the government's commitment to provide the service involved. But by encouraging voucher holders to seek the most efficient provider, the

privatisation enables the government to keep the cost of the service as low as possible (Butler 1985: p21).

The following are some of the strongest general arguments against SOEs, and for privatisation, in addition to but including those given in section 4.6.2 of chapter 4.

6.3.1 Privatisation, in its various forms, is likely to play a role in packages of economic reform in those developing countries whose economies are presently highly state-dominated, and where there are clear failures of policy design (for example, on the public/private mix) and of implementation (inefficiency and/or corruption) [Heald 1988].

6.3.2 In some developing countries, the nature of the political system generates additional features which are not only undesirable in themselves but also obstruct policy reform. Public enterprises can become the vehicle for corruption of various forms : straight-forward embezzlement and bribery for personal aggrandisement, often at the expense of aid-financed projects; the development of croneyism through patronage at high levels; the siphoning-off of money and resources for party, political or factional purposes; and the packing of public enterprises at lower levels with supporters of the ruling political party, however unqualified and without regard for genuine manpower requirements. If public enterprises are to play a constructive role in economic development, pathological features such as the wide-spread tolerance of inefficiency and of corruption clearly have to be tackled. Otherwise there will be significant rethinking about the role which actual, rather than idealised, SOEs can play (ibid: p72).

6.3.3 By selling assets, the government "cashes in" the future income they generate— just as an investor will sell a stock certificate for a price based on its anticipated income. Privatisation does more than this. Such sales are likely to yield a better price than the present value of the government's probable income from the asset. The reason is that managers of publicly owned assets are subject to constant political and budget constraints. They also lack the positive incentives influencing

private sector managers (Butler: ibid).

6.3.4 **An overriding factor leading to privatisation is cost:** the competitive market may provide routine services more cheaply than a government department. The second form of privatisation— de-monopolisation or deregulation— may lead to more competition, lower prices, improved customer services and choice, and may cut the government budget by reducing the need for government provision of a service. Additionally, this form of privatisation hastens technological change in the previously cartelised industries, and bolsters the competitiveness and efficiency of the economy as a whole. Industries experiencing deregulation get thoroughly shaken up, with the result that their efficiency and ability to respond quickly to changing technologies and customer preferences improve substantially.

The process can be painful for many established companies that depend on regulation for guaranteed markets. By liberalising price controls and permitting competition, the deregulation revolution can allow entrepreneurs to find the most profitable ways of serving customers (Butler: ibid). Proponents of SOE-reforms argue that public ownership obstructs liberalisation reforms, and that private ownership will help facilitate their implementation. They argue that governments support SOEs for socio-political ends, and that this leads to various costly subsidies (Heller and Schiller 1989).

6.3.5 **The effect of privatisation on innovation:** in a comprehensive report on the regeneration of Tanzanian industry, the United Nations Industrial Development Organisation (UNIDO) observes that in a world increasingly dominated by accelerating rates of technical change, shorter product life-cycles and rising research and development costs per unit of output, the policy issue for Africa then becomes the capacity of public enterprises to adopt and adapt imported technology. The UNIDO (1991) doubts that African SOEs in their present form can be effective innovators as they are so often net consumers of state revenues. A critical constraint on the development of innovative capacity, the report argues, is the non-availability of high-level scientific and engineering manpower. Once state

enterprises become locked into a downward spiral based on insufficient working capital and rates of re-investment, low capacity utilisation and overmanning, they inevitably have difficulty in rewarding their high-level manpower sufficiently to retain them.

6.3.6 Heller and Schiller (1989: p758) advance two further arguments suggesting that privatisation can reduce the productive inefficiencies arising from public ownership and management. First, they argue, by reducing the frequently high degree of political interference in public enterprise operations, privatisation can improve the quality of managerial decision making. Second, by making managers responsible to profit-seeking shareholders rather than civil servants, privatisation may further improve managerial incentives.

6.3.7 When a state firm runs losses that take government funds away from critical national needs— argue the proponents of privatisation— it could make sense for government to "give" the firm to its employees, on grounds that workers then would have an incentive to cut costs and improve efficiency. Moreover, such "worker control" could be politically attractive in countries trying to combine free enterprise with a collective ideology (Butler: op cit).

6.3.8 **The World Bank argument:** the Bank sees improvements in the economic environment of third world countries as an essential component of any strategy for private-sector development. Its policy-based lending has placed increased emphasis on policies designed to ensure efficiency and competitiveness of the private sector and the economy as a whole. It argues that improvement should not only take place through macroeconomic and sector policy reform, but also through legal and regulatory reforms (most notably cuts in red tape and the streamlining of regulations), revisions in commercial codes, and reform of investment and export rules and incentives.

Bank-supported SAPs will increasingly support programme-country policy, regulations, and legal reforms directed specifically at improving the environment for private-sector development. Removal of barriers to entry

and exit, revisions in labour laws to reduce distortions and the excessive costs of job creation, simplification and improvement of the tax system to make it more transparent and less distortionary, changing titling laws and procedures to make it easier to establish property rights, improving antitrust legislation, streamlining procedures for registering and licensing businesses, reducing the role of public monopolies by expanding competition, improving business accounting and auditing practices, strengthening governments' capacity to regulate (rather than intervene), and encouraging competition and initiative are all high on the World Bank's conditionality menu in support of privatisation in programme countries. In addition, programme countries are being told to address the barriers and constraints facing foreign investors in their respective countries.

Clearly, emphasis is shifting on the part of the Bank towards more, not less, privatisation in the third world against a position in the mid-1980s when it argued, among other things, that:

"The issue is not whether to favour the public or the private sector in the abstract; it is how to reduce the burden on the public sector and encourage the private sector in a way that provides the services more efficiently and is consistent with national priorities"[3].

There has been no shortage of proponents for maintaining SOEs. Some of the arguments against privatisation now follow.

6.4 General criticisms levelled against privatisation of SOEs

6.4.1 **Political imperatives:** the privatisation issue does touch on certain political imperatives, in practice. It may prove politically infeasible to privatise even the most wasteful SOEs and programmes. The reason (Butler: op cit) is that a tight coalition forms around such programmes—one that favours government control. This coalition may consist of programme beneficiaries, those who service these beneficiaries, the political and bureaucratic constituencies whose careers depend on the programmes' existence (political elites), frequently the military, organised labour, and civil servants. When a programme is challenged, therefore,

this coalition has a strong vested interest to campaign to preserve it in the public sector. It may be possible only to dent such programmes, quite impossible to completely eliminate them.

6.4.2 **The Foreign investor issue:** debate is not lacking on a whole range of issues regarding foreign investment into LDCs, so that placing the issue this side of the privatisation debate is by no means conclusive. And because the conditionality issue on privatisation does not preclude (indeed encourages) the possibility of foreign investment/buyers into the public offerings, it merits at least passing comment. The issue arises in a number of variants (Vernon 1989: p148): in the context of debt-equity swaps; in the context of proposals for joint ventures between SOEs and foreign enterprises; and in the context of proposals for portfolio investment by foreigners.

A principal problem with direct foreign investment (DFI) particularly germane to import-substituting industries is that domestic markets are often so highly protected as to offer the foreigner the opportunity for monopoly profits. Another is that profits may be siphoned off through transfer prices. Additionally, when profits are repatriated they may constitute a drain on the economy that exceeds the value of the technology and capital provided by the foreigner. The transfer pricing problem is also applicable to export industries: inputs to the subsidiary and exports by the subsidiary may be priced at levels that generate a net drain on the economy (ibid).

6.4.3 **The Raison d'etre of SOEs argument:** the reluctance, on the part of proponents of privatisation, to recognise, acknowledge and address the non-economic goals of SOEs is at the centre of this argument. For it indeed is true that in the third world, the reasons for creating public sectors were not only economic, but equally importantly, social and political. Burki (1986: p41) has suggested four sets of circumstances that seem to have led governments to set up public enterprises in various parts of the economy:

(a) Public enterprises have followed revolutions; once revolutions were

successfully concluded, as they were in China and Vietnam, there was the need to transfer the ownership of various types of capital from private to public control. In these revolutionary situations, public sector enterprises operate in economies that are centrally managed.

(b) The second case is that of "partial revolutions." It occurs when a deep but not a total change is brought about in the society. Some parts of the economy are transferred to public control largely on grounds of equity and/or exercise of political control. These are the circumstances that led to the establishment of public enterprises in Turkey in the 1930s, in Egypt in the 1950s, and in Pakistan in the 1970s.

(c) Public enterprises may be established to move capital into areas where the private sector is afraid to venture but areas that are politically important to those who wield power. On this issue Burki advances a further argument. This is that a number of SOEs had important beneficial consequences for the private sector: they were able to provide the private firms that followed them with trained manpower, and they often introduced technologies which, because of their expense, would not have interested private entrepreneurs. In other words, in many situations SOEs helped modernise the industrial and commercial sectors. It is difficult, Burki concludes, to put a price on these types of contributions, yet they merit due consideration when SOE-performance is under scrutiny.

(d) Finally, Burki says public enterprises may be set up when the managerial and entrepreneurial capacity is so weak that, left to itself, the private sector would not enter into very many activities. This is best illustrated by the case of post-colonial Africa, when the only way of assuming control of the enterprises relinquished by the colonialists was to have them transferred to public ownership. It was, of course, not politically feasible to keep ex-colonialists very active in the economy, as our earlier analysis in both chapters 5 and 6 indicates.

The view is not thinly held that public ownership per se does not lead to poor performance, in the same way as private sector ownership is no

guarantee of good performance. In the words of Nellis and Kikeri (1989: p663), unsatisfactory performance under public ownership may indeed be apparent, but leaping from this point to a conclusion that private owners cannot do worse is hardly a serious argument. Or, as one author says, unhappiness with SOEs is not, by itself, sufficient reason for their privatisation. There are examples of success stories in both sectors, as well as miserable failures. The determinants of a firm's success or failure, argue Wortzel and Wortzel (1989: p634), are not who owns it:

"..rather, the firm's success or failure is a function of to what extent, and in what direction its owners exercise the authority that comes with ownership and its managers carry out their jobs. Simply stated, enterprise success, regardless of ownership, is a matter of developing a strong, appropriate culture within the firm, of hiring the right managers and seeing that there are appropriate control and motivation mechanisms in place to properly guide their behaviour".

Addressing the ownership question, the UNIDO (1991) report concurs with the view that it takes much more to improve efficiency than mere conversion of a public monopoly into what might well become a private monopoly. Unfortunately, says the report, Africa's economies are usually oligopolistic in structure and heavily protected, a situation that poses a dilemma for economic policy advisers. Private buyers may need "sweeteners"— in the form of protection from competing imports or tax breaks—to entice them to invest in ailing SOEs. And therein lies the problem: that the ensuing protection may well create a policy environment in which private investors have no more interest in economic efficiency than had their predecessors (UNIDO, 1991: p4).

6.4.4 With regard to the problems of the Tanzanian economy, the UNIDO report (ibid) singles out two additional impediments to the expansion of the private sector. First, the uncertainty about the policy environment, in particular the commitment of the government to a policy of encouraging the private sector— see the blow-hot, blow-cold argument in section 6.2.4. Second, the severe liquidity crisis facing all enterprises, a direct result of the country's structural adjustment programme. We shall have more to say about this in chapters 7 and 8.

6.4.5 **The Distributional impact of privatisation** (Van De Walle 1989: p606): some critics of privatisation have argued that its impact is likely to weigh disproportionately on certain groups of the population, and that these groups will typically be the relatively underprivileged in society. The potential distributional impact of privatisation is twofold. First, SOE-employees may be adversely affected if, subsequent to the privatisation, the firm goes bankrupt, government operating subsidies decrease, or there are layoffs by the owner. Second, the poor and vulnerable will be affected if the goods and services provided by the SOE become less accessible to them. SOEs providing social services of a public-good nature such as public transportation, health and education may service groups which a private sector provider may not find sufficiently profitable, a point made earlier.

Perhaps there should not be too much debate regarding the fact that privatisation can indeed do most of the good things we have said in this chapter that it can : it fosters competition, and to the extent this competition is free and fair it is the consumers who stand to gain from improved product and service choice and efficiency; it encourages innovation and initiative; and it places due emphasis on managerial and employee incentives, motivation, and accountability, among other things.
What must really be (and in a sense already is) the contentious issue are the reasons for the privatisation; the nature of the candidate firm(s) and structure of the market in which they operate or are due to operate (intensely competitive, monopolistically competitive, oligopolistic, duopolistic, monopolistic, or monopsonistic); the extent to which privatisation addresses critical social priorities and goals; the regulatory policies in place in individual programme nations; and the adequacy of available institutional arrangements.

We are saying that privatisation of SOEs is indeed desirable, if conditions are right. And in the particular case of developing countries what we are really saying is that most of the pre-requisite conditions are neither right nor ripe most of the time: the nascency or total absence of capital markets, the scarcity of financial resources, the weakness of already existing private sectors, the absence (in most cases) of a conducive and

enabling local environment for both local and foreign investment, among other factors, mean that the benefits of privatisation may not be reaped.

Our position here is therefore that privatisation should be undertaken in those *individual cases* where a well-intended, internal SOE-restructuring is advisable but not possible; where the privatisation improves the condition of the poor and vulnerable (or does not worsen it); where the change in ownership does not risk the emergence of an inefficient private monopoly in place of a public one; and where, overall, it is economically, politically, and morally feasible to do so. A crude concluding prescription would therefore run along the following lines: rationalise individual SOEs where possible, privatise where profitable, and liquidate where necessary. In the debate on privatisation in Zambia— which we discuss next— the issue apparently is no longer *whether to privatise*, but rather, *which SOEs, how, and how soon.* From the pre-independence private enterprise to the post-1968 controlled era, the country has decided it is time to go back two eras and privatise most ZIMCO and INDECO companies. The major reason, to paraphrase President Chiluba, is that "... the SOE-subsidy honeymoon is over...selling soap and foodstuffs is none of my government's business".

6.5 **The Parastatal Reform Programme and Privatisation in Zambia**

6.5.1 **The UNIP ground-work**

Early attempts at reforming the parastatal sector in Zambia took the form of: (a) the 1979 re-organisation which established an executive directorate at ZIMCO head-office to be accountable for group operations, (b) a comprehensive World Bank-funded restructuring of 12 SOEs between 1986 and 1988 called the IDAT study, aimed at restoring them to viable status— which reportedly they did, and (c) the 1990 IDAT-type study examining the operations of ZIMCO and its subsidiaries aimed at improving performance and efficiency. The terms of reference of this latter study were (Kaunga 1992: p3): (i) economic and financial viability: from which would emerge clear strategies for rehabilitation of SOEs and restoring them to viability, (ii) managerial, technical and operational efficiency: in

which key skills gaps and deficiencies in managerial cadres and systems would be identified, and (iii) institutional arrangements for effective monitoring of SOEs.

It was not until 1990 that the Kaunda government gave serious thought to privatisation as a policy option, although conditionality was unambiguous on its need well before then. The landmark pronouncement on privatisation came on the occasion of the opening of the 5th Extra-ordinary Session of the UNIP National Council on 28th May 1990 at which President Kaunda announced the decision to "devolve more economic power to Zambian people through a scheme by which the state will sell part of its capital in state enterprises to the general public"[4].

Kaunda went on to say that the state would offer up to 40 percent of the public utilities (Zambia Railways, TAZARA, the Zambia Electricity Supply Corporation— ZESCO—, the Posts and Telecommunications Limited— PTC and so on) and 49 percent of the rest (mining, industrial and commercial enterprises) to the public. Against the preponderance, up to that point, of SOEs in virtually all sectors, this represented a major policy shift on Kaunda's part. For a start, the Kaunda government saw establishment and encouragement of local and foreign competition against the SOEs and exposing their inefficiencies as the best way of implementing the privatisation programme. Kaunda, of course, was not to stay in State House long enough to get any of these ideas off the ground.

6.5.2 The MMD Privatisation Agenda— A commitment to move the state out of the driver's seat

6.5.2.1 **Policy objectives:** when the Chiluba government took power after the October 1991 elections, they brought with them a new mood and commitment to market reforms, the type Kaunda had slowly warmed up to in his last 2 years in office but never quite had the time (and resolve?) to implement. Leading off the programme, President Chiluba told representatives of the donor community on 5th December 1991 that his government was committed to privatising SOEs, and that there would be no sacred lambs. Under the MMD, the official policy objectives include:

(a) creation of a conducive commercial environment to improve efficiency, (b) stimulating public participation in business, (c) stimulating competition, (d) attracting local and foreign investment, (e) generating investible funds, (f) reducing government's budgetary obligations to ailing SOEs, and (g) promoting economic democracy.

6.5.2.2 **The 1992 Privatisation Act and Privatisation process:** the long-awaited Privatisation Act was passed by the Zambian Parliament in July 1992, paving the way for the privatisation or reformation of some 134 SOEs—see appendices 6.1 and 6.2— at an initial rate of 20 per year. This is the sense in which we refer to the second privatisation in the chapter title.

The World Bank, NORAD, USAID and the German Technical Assistance Agency GTZ have all agreed to provide funds to conduct studies on some of the companies selected for privatisation. On the basis of the financial studies, investment and restructuring programmes are to be evaluated and a way to strengthen managerial and technical capabilities is to be identified. The German finance house DEG has already been invited to revitalise some parastatals before they are offered for sale. DEG will acquire controlling powers in some SOEs and run them until they become profitable enough to be sold. For some SOEs, any investment required for restructuring will be left to the new buyers, while chronic loss-making ones unsuitable for privatisation will be closed down. The entire privatisation programme will be planned, managed, implemented and controlled by an 11-man committee called the **Zambia Privatisation Agency,** (ZPA) whose forerunner was the Technical Committee on Privatisation.

Its infancy prevents us from providing further details and analysis, however the 1992 Privatisation Act indicates that the programme should explore most sale options including: outright sales, sale of physical assets, public offer of shares, re-organisation or breaking-up SOEs into component parts before selling those parts separately including the flotation of new companies in which the state may participate as a minority shareholder, private sale of shares, employee/management buy-outs, equity consolidations, debt/equity swaps, lease arrangements, joint ventures, and liquidations and divestitures.

A document signed on 20 February 1992 by The Honourable Depak K A Patel— then Deputy Minister for Trade, Commerce and Industry; Dr Ephraim C Kaunga— ZIMCO Group Executive Director for Energy and Corporate Planning; and two senior members of the German Consultants GTZ— messrs C Pollak and E A Momber, who have been retained by GRZ, the World Bank and others to lead the pre-privatisation studies on Zambian SOEs— provides some clues as to how the evaluation of SOEs will be carried out. This paper of understanding outlines, among other things, the terms of reference for Price Waterhouse/GOPA— the main consulting agencies— in examining the organisational structure of ZIMCO, the cooperation between GRZ and ZIMCO, and the macroeconomic framework of the parastatals. The terms of reference in examining Zambian parastatal companies for privatisation are presented in appendix 6.3.

According to the document, each company will be assessed in terms of its location, market situation and competition, raw material supplies, production and work flow, organisation and management, personnel situation, financial situation, strengths and weaknesses of the company, legal and regulatory framework, and its social responsibilities.

It will be noted from appendix 6.3 that the actual studies will use the **SWOT** analytical framework that we have already indicated is the best tool for the type of studies identified. We employ the technique in chapters 7 and 8 of this study. In appendix 6.1 we present the first tranche of 17 SOEs advertised for sale by the Zambia Privatisation Agency in September 1992. The advertisement lists the names, location, activity and turnover of the SOEs as at 31.3.92.

6.5.2.3 **Privatisation incentives:** the programme could, if managed transparently and efficiently, inject a new lease of life into the Zambian economy. It offers, inter alia, the following incentives:

(a) Zambian citizens who bring in forex to buy shares in SOEs will qualify to be called foreign investors and will enjoy the same incentives to which such investors are entitled (Chiposa 1992: pp26-27, Privatisation Act 1992). Under the 1991 Investment Act drafted under Kaunda, foreign

investors are allowed to retain 70 percent of gross forex earnings for the first 3 years, 60 percent for the next 2 and 50 percent for the remaining period of a licence's validity. It also gives them a 7-year exemption from tax on dividends, a 3-year moratorium on income tax and, in the subsequent 2 years, a 25 percent savings on normal business taxes. For those investing in agriculture, there is the added incentive of externalising 12.5 percent of the annual after-tax profit attributable to the foreign investment. A new, MMD-authored Investment Act was still being drafted in April 1993.

A quick look at the above forex retention statistics reveals that they are so tapered— 70 percent initially, going down to 50 percent later— as to encourage transfer pricing by foreign investors at the end of the period. The new Act is likely to correct this.

(b) Guarantee of no state take-over: investors also have an assurance that their property or their interest in any property shall not be compulsorily acquired by the government except under an Act of Parliament relating to the acquisition of the specific property. Chiposa (ibid) indicates that a number of foreign firms have already shown an interest in buying shares or in taking over some of the Zambian SOEs. South African Breweries (SAB) has shown an interest in acquiring Zambia Breweries, while Anglo-American Corporation— which already has vast investments in various sectors of the Zambian economy, including Zambia Consolidated Copper Mines— ZCCM (27.3 percent)— has also shown an interest in Zambia Breweries and the Milling Companies. Tate & Lyle Ltd of Britain has a long standing interest in Zambia Sugar Company Limited.

In the case of foreign investors, the 1992 Privatisation Act further lists conditions for the entitlement of above incentives as: (a) when expertise is needed to upgrade efficiency of that SOE; (b) where participation is necessary to promote the export market; (c) where the nature of business requires global linkages and international exposure; and (d) where capital investment or foreign technology is required to expand the capacity of business operations. A quick look at these conditions reveals not only that they are vague, but more importantly that any foreign investor

would surely qualify for incentives under at least one of the 4 conditions.

6.5.2.4 **Dissolution of ZIMCO:** consequent to the sweeping SOE-reforms above, the holding company— ZIMCO— is to be dissolved, in the process privatising 105 of its 120 subsidiaries including INDECO, under which most SOEs fall. To be left unaffected for some time will be ZESCO, the core of ZCCM, PTC, Zambia Railways, Indeni Petroleum Refinery, Tanzania Zambia Pipelines and Zimoil Division— **the negative list in appendix 6.2** comprising Zambia's strategic industries. At the time of going to press, however, it is understood that the Overseas Private Investment Corporation (OPIC) of the USA are not impressed with the government's idea of privatising under-dog SOEs first, leaving the big ones— in the negative list— out for the foreseeable future. As a result of the pressure from OPIC, it is understood that ZESCO, PTC and ZCCM are in the process of being ***de-negativised***, causing considerable national uproar.

The outrage— spearheaded by the powerful Zambia Congress of Trade Unions (ZCTU)— emanates from the worry that Zambia could be selling off her most precious assets to foreigners, invoking deeper fears of neo-colonialism alongside the draining out of the country of these assets in profits. The position of the ZCTU is, of course, understandable: their members stand to lose jobs under structural adjustment— privatisation in particular— thereby reducing its own power and influence.

6.5.3 Tip of the Iceberg?

Underlying problems in the MMD's privatisation agenda abound.

6.5.3.1 There is considerable concern, for example, that members of the privatisation agency may be infiltrated by people specifically planted to advance the commercial interests of certain Ministers and other government officials who have vested interests in the entire process. New African (December 1992) also reports the general worry in Zambia that because the ZPA is under direct cabinet control rather than control by parliament, fears have been raised that the Agency will not function

as an independent body but will be prey to party and personal pressures.

6.5.3.2 A second related concern is that property ownership in Zambia is unusually uneven, for an economy with its type of industrial base. Some estimates put Zambian wealth to be in the hands of from 5 percent (Seshamani) to 10 percent of the population (see, among others, Seidman 1979: p103; Clark and Allison 1989: p27; New African, December 1992). At these estimates, 90 percent of the population do not have the money to buy shares in SOEs. The exercise could therefore end up placing some 95-98 percent of the country's wealth in the hands of some 80,000 of Zambia's 8 million people.

Alexander (1992: p14) for instance refers to the considerable concern in the Zambia Congress of Trade Unions (ZCTU) that Zambian land and parastatals will be taken over by foreign investors together with a small number of Zambians and that the majority of Zambians will not buy shares in a "property owning democracy" as they patently do not have the resources to do so.

The serious point is that ordinary Zambians may not take kindly to what they may see as "being taken for a second ride": where Kaunda kept promising that the economy would improve but it never did; and now the new (MMD) government promising to improve the economy and general living standards but meanwhile some people in government are busy making what we termed in chapter 5 as "Personal Adjustment Programmes"— PAPs— ahead of national economic recovery. Zambians have become so self-conscious and self-critical under the new democratic freedoms that should the perception become wide-spread that government officials are conniving with foreigners and foreign interests to "cut more than their fair share of what has remained of the national cake", then it is anybody's guess what may transpire. Karmiloff (1990: p298) remarks for instance that:

"One cannot but be impressed with the remarkable resilience of Zambia's social fabric, woven loosely from 73 tribes and with about as many dialects or languages, and which has withstood for well over a decade the burden of repeated reductions in real incomes and consumption".

If the current socio-economic problems continue and the earlier mentioned perception of "quick bucks by some government officials" takes hold, it may not be too long before Karmiloff's observation fails to stand the test of time.

6.5.3.3 **SAP to affect, directly, 70,000 jobs:** Minister for Commerce, Trade and Industry Ronald Penza is on record as indicating that the current restructuring programme, including privatisation, will exclude directly some 70,000 jobs (News From Zambia, 1-16 September 1992). Our analysis shows this figure to be 19 percent of Zambia's 1990 estimated total workforce of 376,950. Given the extended family system in Zambia— where livelihood is shared between the "haves" and their "have-nots" immediate and distant relatives, we can use conservative figures to show that the **knock-on-effect** of the 70,000 job losses translates into a loss of livelihood for well over 630,000 Zambians, that is 8 percent of the country's total population.

We have taken each of the 70,000 employees to be responsible directly for an average family of 5 and indirectly for another 4 people in the extended family system, for a total of 9 dependents. These figures only relate to losses in the above-ground economy. The reality of the matter is that there are still larger numbers of Zambians in the under-ground economy who depend for their informal earnings— in one way or another— on the formal earnings of the 70,000. Clearly, we are talking about social costs of massive proportions.

6.6 Chapter Conclusions

We started with a brief review of the development of Zambian industry. We noted, among other things, that whereas industrial activity was dominated by the white-settler minority before 1964, nationalisation reversed the dominance in favour of local participation.

Manufacturing grew rapidly after independence to become one of the largest such sectors in SSA. Among the major reasons for this growth were the strength of Zambia's mining sector— the major market for local

industry— and successful import-substitution industrialisation during the copper-boom years. Structural rigidities— such as import-dependence, over-dependence on copper-generated forex for imported raw materials, and the captivity to the mining sector, alongside generally unfavourable world economic conditions— were largely responsible for the subsequent slow-down in industrial and manufacturing activity.

If the position is taken, as it clearly is in this Thesis, that structural adjustment is both a complex and contentious subject, then it must follow that some of its component parts must necessarily be controversial too. The issue of privatisation, an oft-mentioned form of public sector reforms — themselves an increasingly vital aspect of IMF and World Bank conditionality— does not enjoy any immunity from such controversy. We reviewed some of the general arguments for and against privatisation of state-owned enterprises, before discussing the privatisation debate in Zambia.

When the Chiluba government swept into power in November 1991, a major ideological shift was enunciated in which they argued, among other things, that "the business of our government is not to govern business". The discussion on Zambia's privatisation programme was a significant goal of the chapter for two reasons. First, it is one of the most controversial of Bank-Fund conditionalities that Zambia has implemented todate— and has generated wide interest and raised deep feelings in the country. The second and related point is that the programme will not only involve massive redundancies, but its implementation has raised deep public suspicions that some people in the MMD government may be supporting the programme not out of conviction but much more out of the possibility of early personal gain.

We return to the manufacturing sector, in the next chapter, to pick up the story from 1983 by considering how the reform measures outlined in chapters 5 and 6 have affected the operations of the sector in terms of what problems, challenges and opportunities have been created. Chapter 7 is an empirical study of 43 manufacturing companies in Zambia.

Some of the areas of major interest will include finding out whether the adjustment programme has solved the sector's structural rigidities— such as import-dependence, and dependence on copper for the foreign exchange to import raw materials, spare parts and machinery.

FOOTNOTES

1 Chandra (1992: p4) refers to industrialisation as an increase in the share of the gross domestic product (GDP) contributed by the manufacturing sector. It is a process that involves a change in the structure, or make-up, of the economy. Industrial growth in itself is not sufficient for industrialisation, because other sectors of the economy may increase their output at the same rate. It is necessary for the manufacturing sector to increase its relative importance in the economy more rapidly than other sectors. It is important to keep this point in mind because of the frequent confusion between industrial growth and industrialisation (ibid).

2 For a more detailed account of the growth and performance of Zambian manufacturing seen, among others, Karmiloff 1990: p297.

3 World Bank (1984), Toward Sustained Development in Sub-Saharan Africa: A Joint Programme of Action, Washington D.C, p37.

4 See Kaunda K D, as quoted in Kaunga E C (1992: p5).

CHAPTER 7: IMPACT OF ZAMBIA'S SAP ON BUSINESS STRATEGY: EMPIRICAL RESEARCH FINDINGS AND ANALYSIS

7.0 Chapter Objectives

This is the first of two chapters that present and analyse findings of the empirical research on 43 manufacturing companies that was carried out in Zambia from 10th January to 6th May 1992. We examine the impact of the 1983-93 structural adjustment programme (SAP) on— among other things— raw material import dependence, capacity utilisation rates, export growth, foreign exchange (forex) earnings, and profitability. This examination is carried out on a comparative basis— along six sub-sectors— as well as on overall trends in the performance of the manufacturing sector.

Several rigidities of Zambia's manufacturing sector were identified in chapters 5 and 6. They constitute the major reason for trying to change the structure of the sector under structural adjustment. The major ones include:

(a) Import dependence: we shall attempt to discover whether import dependence has declined from 64 percent in 1981 (Seshamani 1987: p13). For Zambia this is a vital performance criterion because the more companies depend on imported raw materials, the greater the strains on the country's scarce, copper-generated foreign exchange. In other words, we shall be trying to discover whether structural adjustment has led to local sourcing of raw materials. The general proposition by, among others, Killick (1989: p24) is that industries are more likely to be competitive internationally if they are based upon local raw material supplies. Harvey (1993) agrees with this point, arguing that in the end there are net gains from local sourcing. He says if local inputs include labour— especially unskilled labour— then substituting labour for imports (of capital or intermediate goods) is unambiguously better.

Whether import dependence has improved, remained constant, or deteriorated, can we account for the reasons based on our survey? Does

import dependence differ according to such independent variables as ownership category (parastatals, multinational companies, or private firms); age (established before Zambia's independence in 1964, between 1964-1982, and during the first decade at adjustment— 1983-93); or according to the six sub-sectors of the manufacturing sector that we define in section 7.1. These are some of the questions that this chapter addresses.

(b) Capacity utilisation rates: have manufacturing capacity utilisation rates improved from around 65 percent in 1981 (Norton 1991: p71) and 65 percent in 1985 (UNIDO 1988: p3)? If not, why not?

(c) Most significant problems faced during the adjustment period: we wish to provide, based on our sample, an indication of what the manufacturing sector considers to be the most significant problems and/or benefits of the adjustment period.

(d) Employment and profits: it is widely believed, in the literature, that state-owned enterprises (SOEs) are usually over-staffed. Do Zambian SOEs on average employ more people than MNCs and private companies? Another common belief is that MNCs and private firms make more profits than SOEs. Is this true of Zambia, based on our sample?

(e) Diversification away from dependence on copper-generated foreign exchange: we have consistently argued— from as early as chapter 1— that Zambia needs to reduce dependence on copper. This is because, as Kydd (1988: p115) and Harvey (1991: p146) among others point out, useful copper ore deposits will be exhausted within the first quarter of the next century. Because this is the most critical of all of Zambia's adjustment problems, we devote an entire chapter (9) to its discussion. We shall address such issues as foreign exchange earnings from non-copper, non-traditional exports; diversification of export products and/or export markets; and the number of exporting firms.

Points (a) to (e) above will be investigated in the following way. Average import dependence will be calculated from our sample for the period 1988 to 1991: both by type of company, year of establishment, as well as by sub-sector. We shall investigate reasons for any differences. If average import dependence is found to be still high— above 50 percent, for instance— then it will be reasonable to conclude that the goal of re-

orienting companies to local sourcing of raw materials under structural adjustment has not yet been realised. Secondly, capacity utilisation rates are known to have averaged around 65 percent in 1981 and in 1985 (see Norton 1991: p71 and UNIDO 1988: p3). We shall utilise data from the Export Board of Zambia (EBZ) to see whether there has been any improvement. The reason for utilising EBZ data will be explained later.

Question 76 on our questionnaire asked companies to rank 9 of the major problems they have faced during structural adjustment. Using the ranking method proposed by Jankowicz (1991: p214), we shall examine and analyse the responses based on ownership category. With regard to employment, sales and profit levels, again we shall utilise data from our sample to compare average performances— by type of company— for the period 1983 to 1990, for which we were able to get some data. Finally, chapter 9 will explain how the issue of diversification away from copper shall be investigated.

As can be appreciated, the analysis in each sub-sector is detailed to the extent of the data that the 43 companies were both willing and able to provide. We must caution at this early stage of the three empirical chapters— as we did earlier on in the methodology chapter (3)— that although our questionnaire as appended at the end of this study has 84 perhaps very good questions, practical difficulties were experienced during its actual administration among the 43 responding companies. We could not get all the data we wanted, simply because what statistics companies were able to provide was a function of what they have, what and how much they remembered, and of course whether they were prepared to give all of it. During interviews with 7 different Managing Directors, for instance, we were told to ask only those questions we considered important because they were only prepared to answer very few of the 84 questions. The Manufacturing Director at Colgate Palmolive (Zambia) Limited in Ndola, for example, told us to restrict the interview to 40 minutes.

The above clarification is perhaps self-evidently necessary: gaps will be noticed in the level of detail we provide in the next three chapters.

Under the circumstances, there is not much anyone can do when companies say they are only prepared to give so much detail.

In pursuit of greater insights into operations and general management of the 43 firms, a major aspect of the field work involved the acquisition of company financial statements— balance sheets, income statements and statements of changes in financial position. These are analysed in this chapter using financial ratios under four categories: profitability ratios, liquidity or short-term solvency ratios, turnover or activity or efficiency ratios, and debt or long-term solvency or borrowing capacity ratios.

Profitability ratios generally measure the earning ability of a firm, the ability to generate revenues in excess of expenses (Gibson and Frishkoff 1983: p247). Ratios that measure profitability usually consist of a profit element and one that represents the amount of funds invested in whatever aspect of the firm is of interest to the analyst. Liquidity or short-term solvency ratios measure the ability of a firm to pay current liabilities as they come due. Current liabilities are debts due within one year (Aragon 1982: p28). The only funds available for payment of short-term debt are either cash or other current assets— principally accounts receivables and inventories in the case of Zambian companies— that may be converted to cash.

Turnover or efficiency ratios give an indication of how efficiently assets are being managed. Examining the relationship between a measure of sales and an assets account is their purpose. By comparing revenues with the resources used to generate them, it is possible to establish an idea of how assets are being utilised. Debt or borrowing capacity ratios, on the other hand, measure a firm's ability to pay its long-term liabilities. They also measure the capacity of a firm to borrow more money in future. Companies use debt— borrow money— when they have no funds of their own, also in order to reduce the amount of owners' investment required and thus increase the return on owners' investment (Baruch 1974, Baxter 1984). The use of debt, however, is a mixed blessing because it increases the risk of bankruptcy.

Thus, the more debt a company has, the more financial risk it has (see, among others, Gibson and Frishkoff 1983: p210; Aragon 1982: p79). A company with relatively low levels of debt has flexibility, because it has unused borrowing power that can be tapped, for example, for expansion purposes. A company with relatively high levels of debt has little flexibility, because additional borrowing will be severely limited.

Ratio analysis is intended to help us to understand what is really going on in the manufacturing sector and be able to make judgments about the performance and prospects of the sector. We are looking for, if you wish, the "story behind the story" which might otherwise escape inside management itself (Aragon 1982: p57). These ratios will rarely provide us with the final answers, but rather point to areas where further investigation may be warranted. Appendix 7.1 defines the various ratios used in chapters 7 and 8, which are elaborated upon in chapter 3.

Evaluation of the performance of sub-sectors of the manufacturing sector in this chapter is intended to provide a quantitative and qualitative basis for the formulation of policy recommendations and guidelines: at both government and firm-management levels. This examination is intended to lead to ideas on performance improvement and/or constraint reduction, which are essential ingredients to any future industrial development strategy in Zambia.

7.1 Description and characteristics of the 6 sub-sectors

7.1.1 Agro-based, Food, Drink and Beverages Sub-sector

In our 43-company survey this sub-sector encompasses animal products (such as beef, day-old chicks, hides), agricultural products (such as coffee, cotton lint, tobacco), soft drinks and beverages, and processed foods (such as cereals, canned foods, and refined sugar). A total of seven companies were covered in our survey, five state-owned enterprises (SOEs) and two privately-owned firms.

7.1.2 **Chemicals, Plastics, and Petroleum-related Products Sub-sector**

In our survey, this sub-sector covered twelve firms, or 28 percent of the sample. They included two multinational companies, four parastatals, and six private companies. Among the major products of the sector are acids, agro-chemicals, copper oxychloride, fertilisers, oxygen gas, zinc oxide, bitumen, diesel, kerosene, petrol and lubricants.

7.1.3 **Wood and Paper Products Sub-sector**

The timber industry, dating back to 1912, was the first manufacturing industrial activity recorded in Zambia. It was established to supply both the Rhodesia Railways and the Union of South African Railway with sleepers (Muzandu 1985: p17). We examined four companies in this sub-sector— one parastatal company and three private firms.

7.1.4 **Textile Sub-sector**

Zambia's Textile Industry comprises 32 established mills that produce mainly cotton yarn and cotton fabrics. The industry as a whole involves spinning, weaving and knitting as the main product lines. Synthetic blended fabrics are also produced by such companies as Mukuba Textiles of Ndola, who have to import polyester from South Africa, Taiwan and Switzerland. Our survey examined seven of the 32 firms— that is one multinational company and six private firms.

7.1.5 **Health-Care/Pharmaceuticals Sub-sector**

We surveyed five firms in this sub-sector, three multinational corporations (MNCs) and two private, Zambian-owned firms. Major products of the sector include drugs (both human and veterinary), body lotions, and oral care products.

7.1.6 **Metal and Machinery Manufacturing Sub-sector**

We surveyed eight firms in this sub-sector— one multinational company, three parastatals, and four private firms. Major products include brass ingots, iron and steel products of various descriptions, copper rods, telephone and power cables, farm machinery, and mining drilling products.

7.2 Ownership, year of establishment, and raw material import dependence

Results from our survey (see appendix 7.2) show that of the 43 firms surveyed, eight (or 19 percent) were established before independence from Britain in 1964. The number of firms established between 1964-1982— the period before the onset of structural adjustment in 1983— is 28 (or 65 percent). Only three (or 7 percent) of the firms are found to have been established during the adjustment period. There were 4 missing values, companies that did not indicate year of establishment because nobody in the company knew the exact date of formation. The 65 percent of firms established between 1964 and 1982 confirms findings by other authors— such as Karmiloff (1988), Simson (1985) and Muzandu (1985)— that import-substitution industrialisation (ISI) between 1964 and 1982 spurred growth in the number of manufacturing firms. Muzandu (ibid: p285) attributes this growth to the dissolution of the 1953-1963 Federation of Rhodesia and Nyasaland and Zambia's subsequent independence from Britain in 1964. This meant that foreign governance and the system of inter-territorial transfers of (copper) revenues came to an end, allowing Zambia both the right to formulate its own industrialisation policy objectives and instruments.

Harvey (1993) also mentions two factors that contributed to growth in manufacturing soon after 1964. First, local manufacturing could now be protected from Southern Rhodesian imports. Unilateral Declaration of Independence (UDI) in Southern Rhodesia in 1965 and consequent international sanctions against the Salisbury government hugely increased this protection. Harvey says Zambian imports from Salisbury fell from 40 percent to 7 percent, consisting mainly of electricity from Kariba by 1969. Secondly, the capture of mineral royalties combined with an early copper price boom to provide ample resources for local investment and manufacturing expansion.

TABLE 7.1 IMPORT DEPENDENCE BY YEAR OF ESTABLISHMENT AND OWNERSHIP CATEGORY BASED ON OUR SAMPLE SURVEY OF MANUFACTURING COMPANIES IN ZAMBIA.

	IMPORT DEPENDENCE (%) (VOLUME)			
	1988	1989	1990	1991
Average, manufacturing sector	61	61	61	60
Average, 33 most import-dependent firms	79	79	78	76
Average, 8 companies formed before 1964	61	61	61	60
Average, 28 companies formed between 1964-1982	61	61	61	59
Average, 3 companies formed between 1983-1993	61	61	61	60
Average, 7 multinational corporations	65	65	66	66
Average, 13 parastatal companies	49	49	49	49
Average, 23 private companies	69	69	68	65

SOURCE: THE 43-COMPANY SURVEY

Table 7.1 shows that raw material import dependence— which we discuss in volume terms unless stated otherwise— averaged 61 percent in 1988, 1989, 1990 and 60 percent in 1991 for all three categories of firms by period of establishment. This shows that the age of a manufacturing firm in Zambia is not a factor with regard to raw material import dependence. Only 14 of the 43 firms in appendix 7.2— or 32 percent— are found to import less than 50 percent of their raw material requirements. In their 1985 study Seshamani and Samanta (1985: p68) found only 22 out of 74 firms (or 30 percent) imported less than 50 percent of their raw materials. Of the 14 in our sample, two are MNCs (averaging 25 percent import dependence between 1988 and 1991); 6 are private firms (averaging 24 percent); and 6 are parastatal firms (averaging 5 percent import dependence between 1988 and 1991). Of the 6 least import dependent parastatals, 4 belong to the agro-based industrial sub-sector alone.

Overall results in table 7.1 comparing ownership with import dependence show that parastatal firms are the least import dependent in the sample, importing on average 49 percent of their raw material requirements between 1988 and 1991. MNCs and private firms, on the other hand, show equal import dependence, averaging 66 and 68 percent respectively between 1988 and 1991. Can we account for the fact that parastatals are the least import dependent? From our sample, the answer lies in the fact that the agro-based category has the least imported raw material component of all 6 sub-sectors as shown in table 7.2. The low level of

import dependence among parastatals may well reflect sample bias. As Harvey (1993) points out, it is possible that some parastatals— such as Metal Fabricators of Zambia (ZAMEFA) and Kafue Textiles— were set up in order to process local raw materials. The same may not necessarily be true of multinational and private companies.

Appendix 7.2 shows that the agro-based sub-sector has 5 of the 13 parastatals, 4 of which are part of the 6 least import dependent parastatals discussed above. We elaborate on this next.

7.3 **Import dependence by sub-sector**

Table 7.2 provides details regarding import dependence by sub-sector. For manufacturing as a whole, import dependence increased from 58 percent in 1970 to 64 percent in 1981— according to Seshamani (1987: p13). Our data shows that import dependence decreased marginally from 64 percent in 1981 to 61 percent in 1988 and 60 percent in 1991, a reduction of only 4 percent in 10 years. Table 7.2 further indicates that average import dependence for the manufacturing sector remained more or less static at 61 percent (in 1988, 1989 and 1990) and 60 percent in 1991. This confirms the assertion by Seshamani and Samanta (1985: p68) that import dependence in Zambia has remained static at very high levels.

Table 7.2 : **Import Dependence by sub-sector, based on our survey**

NAME OF SUB-SECTOR	1988	1989	1990	1991	AVG (%)	RANK	FIRMS
1 Chemic, Plast, and Petrol products	75	75	75	75	75	2	12
2 Wood and Paper products	63	63	63	64	63	4	4
3 Agro-Food and Drinks	28	28	28	28	28	6	7
4 Textiles and Garments	48	47	46	39	45	5	7
5 Healthcare/Pharmaceuticals	69	69	68	68	69	3	5
6 Metal and Machinery manufacture	83	83	84	83	83	1	8
Total number of companies involved							43
Average for manufacturing	**61**	**61**	**61**	**60**			

SOURCE: 43-COMPANY SURVEY

But even the above import dependence figures are in fact biased downwards to the extent that domestically purchased inputs themselves contain imported inputs, a point that Seshamani (1987: p13) does emphasise.

Harvey (1993) makes the important observation that import dependence may, in general, change for two reasons. First, if existing firms use less imports (or more); and secondly if new firms using less imports lower the average (or vice versa). So that constant import ratios may mean that existing firms are using less imports, while new firms have above average import ratios. This, however, is unlikely in Zambia's case, as will be made clear when we explore the causes of high import ratios later on in this chapter. For the moment, one reason is because we have a set of firms that is unchanged over the 1988 to 1991 period as shown in table 7.2.

Our results in table 7.1 show that although the 43-company average import dependence for 1991 was 60 percent, the average for the 33 most import-dependent companies (77 percent of the firms) was 79 percent in 1988 and 76 percent in 1991, a marginal decline of 3 percent. This is closer to the 80 percent of the sample who consider themselves as using more imported than local raw materials.

A comparison of average import dependence by sub-sector between 1988 and 1991 (table 7.2) reveals that the metal and machinery sub-sector is the most import-dependent, averaging 83 percent between 1988 and 1991. It is followed by the chemicals and petroleum sub-sector (75 percent), the health-care sub-sector (69 percent), and the wood and paper products sub-sector (63 percent). Only two— the agro-based and textiles sub-sectors— are found to import less than 50 percent of their raw material requirements: averaging 28 and 45 percent respectively between 1988 and 1991. Our evidence reveals that of the 72 percent sourced locally, the agro-based sub-sector sources 81 percent of its raw materials from agriculture alone. The corresponding figure for textiles is 50 percent— principally cotton from farmers in Southern Province and the Mumbwa corridor of Lusaka Province. For other sub-sectors, raw material sourcing from agriculture ranges from zero percent in the case of the metal and machinery sub-sector to 6 percent for wood and paper products.

Within the agro-based sub-sector, there are exceptions. Refined Oil Products (ROP, producers of soaps, edible oils, toiletries and detergents) import close to 95 percent of their raw materials. They import crude vegetable oil from Argentina and Brazil, tallow from Australia, perfumes for soaps from the United Kingdom, and caustic soda from South Africa, United Kingdom and the Middle East. Local sources are reportedly incapable of meeting ROP's quantity requirements. If ROP were eliminated from the agro-based sub-sector, the average import-dependence drops to only 13 percent. ROP, a SOE, is not engaged in exports. Kwacha devaluations under the SAP and general inflationary trends in the economy have led to cost rises as imports have become more expensive. ROP's cost of goods sold (COGs), for instance, rose sharply from K58 million in 1984 to K360 million in 1990, an increase of some 520 percent. Cumulative inflation, for the same period, was 470 percent. Costs therefore rose by some 50 percentage points more than the rate of inflation. Lack of enough Kwacha cover to pay for forex for imports has led to constant plant shut-downs as well as 30 percent capacity utilisation rates at ROP.

90 percent of the respondents in the metal sub-sector attribute the high figures of raw material import dependence to the absence of an iron and steel plant in Zambia. Mwenechanya (1989)— a former General Manager for ZCCM Luanshya Division— points out that iron ore deposits have been identified at four principal locations in Zambia: Sanje and Namantombwa (west of Lusaka); Nambala (near Mumbwa); and the Chisasa deposit near Mwinilunga. But the argument for an iron and steel industry has to take on a wider, international dimension. Henley (1992) makes the useful argument that there are already enormous surpluses and over-capacities in world markets for iron and steel.

But the question, in the 1990s, is what kind of steel does a country like Zambia need? In a small economy like hers there is a whole spectrum of steels that are used, but in too small volumes to manufacture (economically) locally. Yet steel manufacturing world-wide has become much more differentiated than before, the trend now being towards highly capital-intensive, highly-specialised technologies. So that a new

entrant like Zambia simply cannot afford the money to get into that kind of business. More importantly, the country cannot produce all the needed steel varieties (Harvey 1993). Attention, rather, ought to be focussed on efficient imports of iron and steel from outside sources such as South Africa, Zimbabwe, Poland or Russia. So that Zambian firms need an active buying strategy on the world market, getting the best buy for industry and for Zambia rather than envisaging a local industry that will turn into a white-elephant in no time.

The second most import-dependent sub-sector— chemicals and petroleum products— has two of the three firms— in the entire sample— which import 100 percent of their raw materials. Indeni Petroleum Refinery Ltd of Ndola import all of its liquefied petroleum gas (LPG), gasolines, kerosenes, gas oils and blacks. Norgroup Plastics Ltd, another Ndola-based SOE, also imports 100 percent of the raw materials used in producing plastics. Ndola Lime Ltd, another SOE, is by contrast the only firm in the sample using only local raw material sources in the production of lime and lime products.

Before leaving this section, it is important for us to not give the impression that high import dependence is per-se a bad thing. As Harvey (1993) rightly observes, if a firm with 80 percent import dependence exports 100 percent of the product, it may become a net earner of foreign exchange— and even create more jobs. But as we shall see later, at 89 to 93 percent home-market orientation— meaning 7 to 11 percent only of total production going to exports— this argument does not apply to Zambia.

Reaping where they do not sow: forex usage by Zambian parastatals

Import-dependence in Zambia's manufacturing sector can also be understood from table 7.3, which gives quarterly results of forex earnings versus forex allocations for 41 SOEs in the 4 months leading to the announcement of new economic measures on 30 June 1989. Our field-research included 13 (or 32 percent) of these. The four-month forex details are the only ones we could get. Of the 41 SOEs only one (ZAMEFA, the copper-dependent manufacturer) actually earned more forex than it was allocated. Of the 31 SOEs that did apply for forex, 30 are

found to use more forex for raw material imports than they earn from subsequent exports. The table shows that for every dollar the sector makes from exports, it needs 4 dollars for vital imports. However if ZAMEFA forex earnings and utilisation are removed from the picture, import-dependence worsens dramatically to $20 needed for raw materials that will only lead to a dollar in subsequent export earnings. These statistics support findings by the UNDP (1989: p9) that the manufacturing sector in Zambia— 75 percent of which is parastatal— is a net user of foreign exchange.

Table 7.3 Quarterly forex earnings versus forex allocations among manufacturing Parastatals in Zambia, April-July 1989 ($'000).

Name of Company	Total Forex Earnings	Total Forex Allocations	Balance	Name of Company	Total Forex Earnings	Total Forex Allocations	Balance
Afe Limited	0	627	-627	Anros Industries	0	0	0
Chilanga Cement	902	1279	-377	Choma Milling Co.	0	0	0
Consol Tyre Serv	0	385	-385	Crushed Stone Sales	0	0	0
E C Milling Co Ltd	0	283	-283	Gen Pharmaceuticals	0	174	-174
Ghiarardi Milling Co	0	1300	-1300	Indeco Estate Dev	0	0	0
Indeco Milling Co	0	1288	-1288	Kabwe Indust Fabr	0	1791	-1791
Kafironda Limited	37	6306	-6269	Kafue Textiles Ltd	501	1466	-965
Kapiri Glass Co	0	1104	-1104	Lenco	0	787	-787
Luangwa Industries	30	295	-265	Mansa Batteries	190	311	-121
Monarch (Z) Ltd	0	464	-464	Mwinilunga Cannery	0	0	0
National Breweries	0	408	-408	National Drum & Can	0	729	-729
National Milling Co	0	3080	-3080	Nkwazi Manufac Co	0	363	-363
Norgroup Plastics	0	775	-775	Poultry Proces Co	0	0	0
Premium Oil	0	1724	-1724	Robinhood Products	0	0	0
Rop Limited	0	4012	-4012	Supa Baking Co	0	27	-27
United Milling Co	0	19	-19	Zambezi Saw Mills	25	60	-35
Zambia Breweries	0	5124	-5124	Zambia Ceramics	0	57	-57
Zambia Clay Indust	0	0	0	Zambia Coffee Co	0	147	-147
Zambia Oxygen Ltd	25	901	-876	Zambia Pork Prod	0	0	0
Zambia Steel Co	0	976	-976	Zambia Sugar Co	130	1555	-1425
ZAMEFA Ltd	8608	3231	+5377	Indeco Limited	0	0	0
Total	**10,448**	**41,048**	**-30,600**				

SOURCE: GRZ (1989b: pp165-166)

Inter-sectoral and intra-sectoral linkage weaknesses: from the above high levels of import dependence it is evident that back-ward linkages between and within sub-sectors are bound to have remained weak— because firms buy the bulk of raw materials and spares from abroad and not from within.

Table 7.4 REASONS FOR CONTINUING RAW-MATERIAL IMPORT DEPENDENCE, BY SUB-SECTOR

	REASON	FREQUENCY							
		CHEMIC	WOOD	AGRO	TEXT	HEALTH	METAL	TOTAL	%
1	Not available locally	11	2	1	2	5	8	29	67%
2	Poor quality	5	0	1	2	2	3	13	30%
3	Too expensive	3	1	2	2	2	2	12	28%
4	Parent company policy	2	0	0	1	3	1	7	16%
5	Technology depend on West	6	1	2	1	3	6	19	44%

SOURCE: SAMPLE SURVEY

Why has raw material import dependence persisted?

Several explanations (table 7.4) were advanced for the continuing dependence by the manufacturing sector on imported raw materials. Five main reasons emerged. The questionnaire responses were not mutually exclusive— as multiple responses were given in several cases— therefore both the totals and percentages do not add up to 43 and 100 percent. The majority of firms (67 percent) indicated that despite Kwacha devaluations making imports more expensive in Kwacha terms, they have continued to import because there are no local substitutes. Within this picture, we observe that the two least import dependent sub-sectors— agro-based and textiles— do not view local availability as a major problem. Only 3 three of the 14 firms in the two sub-sectors (21 percent) view local raw material availability as a problem.

As we have already pointed out, the two sub-sectors have the strongest backward linkages to Zambia's agricultural sector in terms of volumes of raw materials sourced from it.

58 percent indicated that when such raw materials are available locally, they are either of poor quality (30 percent) or too expensive in comparison to imports (28 percent). One food manufacturer in Ndola indicated to us that between 1990 and 1991 the time arose:

"When we were forced to import sugar from Malawi and Zimbabwe because Zambia Sugar Company, only 4 Kilometres away within Ndola, was far too expensive, even after considering transportation costs".

Another 16 percent of the firms— representing 100 percent of the multinational companies— indicated parent company policy as the main reason for continuing import dependence. As we shall see in the case of one such multinational company in chapter 8— Colgate Palmolive Zambia Ltd— it imports 74 percent of its raw materials. The company's American-trained Manufacturing Director told us during the field-work:

"Because of the need to meet international product standards set at headquarters in New York, coupled with the prohibitive capital outlays involved with economical investment in raw materials for our type of products, imports of raw materials will continue almost forever".

44 percent of the firms interviewed said that because they depend on Western technology, they have had to continue importing raw materials and spare parts that go with those technologies. Technological dependence on the more advanced economies of the West is very difficult to get out of, given that all advances in technology invariably take place there.

7.4 **Capacity utilisation rates**

We examine overall capacity utilisation rates in Zambia's manufacturing sector using Export Board of Zambia data. This is because our own sample data has too many missing values to be reliable. The EBZ data, on the other hand, is more reliable because it covered a far larger sample than our own— 119 manufacturing companies in 1990 and 114 companies in 1991 against our 43.

Table 7.5 reveals that capacity utilisation in the overall manufacturing sector declined from 57 percent in 1990 to a low of 34 percent in 1991. Yet according to UNIDO (1988: p3), capacity utilisation in Zambia's manufacturing sector had been a high of 65 percent in 1985. EBZ officials in Lusaka told us there were 4 missing values in 1990 and only 1 in 1991. To appreciate the magnitude of the capacity utilisation problem, consider (from table 7.5) that in 1991 a total of 79 of the 114 firms (70 percent) had average capacity rates of only 27 percent. The low rates

have been caused mainly by lack of forex to import raw materials and spares, as we shall see shortly. Obsolescence of machinery and consequent regular break-downs and high production costs were also often mentioned by firms in our sample as major problems affecting capacity utilisation rates.

Table 7.5 Capacity Utilisation rates in Zambia's visible non-traditional export sector, 1990-1991.

	Average Capacity Utilisation (%)		Number Of Exporters	
Sub-sector	1990	1991	1990	1991
Animal Products	60	28	na	8
Building Materials	47	32	"	7
Chemical Products	61	37	"	13
Engineering Products	64	24	"	6
Floricultural Products	67	55	"	6
Garments	70	58	"	6
handicrafts/Curios	na	15	"	4
Horticultural Products	65	28	"	11
Leather	69	40	"	3
Minerals	64	18	"	3
Mining Equipment	35	42	"	3
Other Manufactures	30	13	"	6
Petroleum Oils	na	na	"	1
Primary Agric Commodities	79	36	"	8
Processed Foods	na	35	"	6
Semi-Precious Stones	na	40	"	3
Textiles	55	48	"	13
Wood Products	35	25	na	7
Total	**57%**	**34%**	**119**	**114**

SOURCE: EBZ EXPORTER AUDITS (1989-1992)

The obvious question is why has capacity utilisation declined in the sector? We asked our sample this question in the wider context of the major problems they have faced during the 1983-93 structural adjustment period. Specifically, we asked them to rank 9 major problems in our questionnaire, whose summary results we present in table 7.6. Appendix 7.3 gives the complete rankings of each factor by company.

7.4.1 Foreign exchange (forex)-related problems

Table 7.6 reveals that forex shortages has been the number one problem throughout the period. Of the 36 firms in our sample who ranked this problem, 24 (or 67 percent) gave it a first ranking, while 7 gave it a second or third ranking as the most significant problem. In all, 86 percent of our sample gave it a ranking of 1, 2 or 3. Only one company

in our sample— Swarp Spinning Mills—gave forex shortages a ranking of 9, indicating they do not consider it a pressing problem. The reason— as we shall see in chapter 8— is that Swarp has taken over as the largest foreign exchange earner in the textiles category. Swarp alone accounted for 59 percent of all textile exports in 1991, and our interview with the Managing Director revealed that the firm has been operating at 90-97 percent of capacity in the last 4 years. It currently exports between 60-65 percent of its total output, with exports rising from a mere $90,000 in 1986 to $6 million in 1992— making it one of the top five non-traditional exporters according to EBZ (1992).

TABLE 7.6 RANKING OF THE 9 MOST VITAL PROBLEMS FACING ZAMBIAN FIRMS BY TYPE OF OWNERSHIP.

	THE 9 MAJOR PROBLEMS AND INDIVIDUAL RANKING								
	MKT	FOREX	TALE	POLICY	COMPET	CREDIT	TRANS	RATES	REMIT
FACTOR SUM	148	72	152	110	131	137	117	108	161
FACTOR RANKING	**7**	**1**	**8**	**3**	**5**	**6**	**4**	**2**	**9**
TOTAL RESPONDING COMPANIES ON FACTOR	22	36	24	33	25	26	24	37	22
TOTAL MISSING VALUES ON THIS FACTOR	21	7	19	10	18	17	19	6	21
TOTAL 1ST RANKINGS ON THIS FACTOR	0	24	0	7	0	0	2	3	1
TOTAL 2ND RANKINGS ON THIS FACTOR	1	3	3	8	2	3	2	15	0
TOTAL 3RD RANKINGS ON THIS FACTOR	1	4	1	4	5	5	5	8	3
SUM OF 1ST+2ND+3RD RANKINGS OF FACTOR	2	31	4	19	7	8	9	26	4
TOTAL 4TH RANKINGS ON THIS FACTOR	1	2	3	5	5	4	1	9	1
TOTAL 5TH RANKINGS ON THIS FACTOR	3	0	2	3	3	3	3	0	1
TOTAL 8TH AND 9TH RANKINGS OF FACTOR	9	1	11	2	6	6	4	1	15
AVERAGE RANKING OF FACTOR BY ALL MANUFACTURING	8	1	7	3	5	6	4	2	9
AVERAGE RANKING OF FACTOR AMONG PARASTATALS	6	1	8	7	4	5	3	2	9
AVERAGE RANKING OF FACTOR AMONG PRIVATE FIRMS	8	1	7	2	5	6	4	3	9
AVERAGE RANKING OF FACTOR AMONG MULTINATIONALS	8	1	9	2	6	7	5	3	4

FACTORS = PROBLEMS BEING RANKED: MKT= Lack of knowledge about foreign markets; FOREX= Lack of foreign exchange; TALE= Absence of adequate local management talent; POLICY= Inability to do any strategic planning due to the stop-go, unpredictable Zambian policy environment; COMPET= Stiff competition as a result of trade liberalisation; CREDIT= Inadequate credit and adjustment loans from Development Finance Institutions (DFIs); TRANS= Local transport is both costly and unreliable; RATES= Interest rates are too high; REMIT= Inability to remit dividends and royalties.

SOURCE OF DATA: 43-COMPANY SURVEY
SOURCE OF RANKING METHOD: JANKOWICZ A D (1991: P214)

Because most firms are imported raw material-dependent as we have already seen, the SAP period has witnessed a vicious circle: where persistent forex shortages have limited their capacity to import, starving them of essential raw materials, spare parts and capital goods— thereby leading to low capacity utilisation rates— which has in turn stifled exports and efficiencies.

7.4.2 Liquidity squeeze, High interest rates and Inflation

Our sample ranked **high interest rates** as the second most serious problem. But we have to discuss this factor in conjunction with three other related problems: shortage of bank credit (which our sample ranked 6th) and the liquidity squeeze and high inflation— both not included in our questionnaire but which emerged during our interviews as equally serious problems affecting all companies. We examine, first, borrowing rates and rates of inflation for selected years as shown in table 7.7 and figure 7.1.

Table 7.7: INFLATION AND BANK LENDING RATES IN ZAMBIA, 1981-1992.

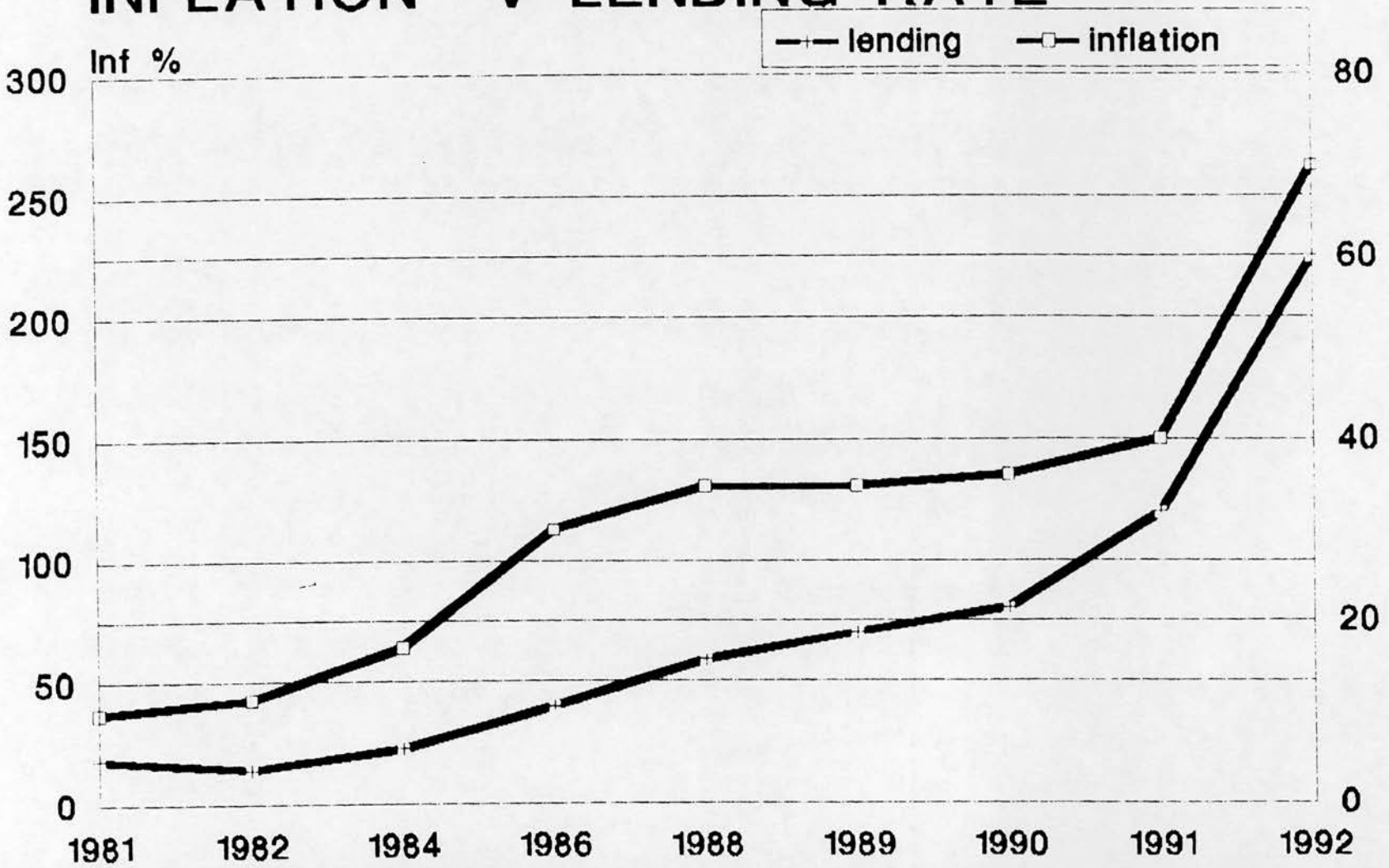
	1981	1982	1984	1986	1988	1989	1990	1991	1992
INFLATION (%)	18.1	13.9	23.8	40.0	59.0	70.0	80.0	120	225*
LENDING RATE (%)	10.8	11.5	17.0	30.0	35.0	35.0	36.0	40.0	70.0
REAL INTEREST RATE (%)=	-7.3	-2.4	-6.8	-10.0	-24.0	-35.0	-44.0	-80.0	-155

NOTE: The Zambian government had budgeted for 45% inflation in 1992, but ended up with 225%.
SOURCE: Compiled from CSO (1981-1989); Seshamani (1992); GRZ (1989b: p28); African Business (November 1992); Colgate Palmolive (Zambia) Management Fact Book (March 1992); NFZ (23 November-11 December 1992); and Price Waterhouse (1993).

Both table 7.7 and figure 7.1 show that the rate of inflation in Zambia has in fact been growing higher and faster than commercial bank lending rates, resulting in negative real interest rates throughout the period. In a typical Western economy, companies would not have much cause to complain about such a scenario since the table indicates that companies are paying little for the money borrowed in the inflationary situation. But in a third world economy like Zambia's, factors such as those we discuss next show that the story is radically different.

We share the view by Killick and Martin (1990: p21) that it is not enough in a country like Zambia to recommend that real interest rates should be positive, that is interest rates should be higher than the rate of inflation. Killick and Martin point out that if inflation is rapid— as in Zambia— then reducing it is likely to be more beneficial to the financial sector and overall economic performance than raising nominal interest rates. "Positive real interest rates", they argue, "are a moving target".

FIGURE 7.1
INFLATION V LENDING RATE



Raising nominal interest rates may contribute to further inflation by increasing working capital and other production costs, and countries like Zambia with significant inflation levels should give priority to counter-inflation policies— such as reducing government deficits and borrowing— rather than acting on nominal interest rates.

In his letter to me dated November 1992, German-based economics Professor Andrew Kamya— who spent 14 years to February 1992 studying the Zambian economy— wrote:

"Inflation is a dangerous evil, basically because of its adverse impact on incomes, wages, interest rates and other costs of production. The main source of inflation in Zambia has been, apart from the supply gap and imported inflation, the government's huge budget deficit indicating that government expenditure by far exceeds its revenue, so that the difference is generally financed through money creation— central bank borrowing".

Returning to our sample, we find that of the 37 firms (table 7.6) who ranked un-availability of credit as a problem, a total of 26 (or 70 percent) gave it either a first (3), second (15), or third ranking (8 firms). The 70 percent interest rates have reached what firms describe as "distress levels", beyond most firms' reach. Despite the higher inflation than borrowing rates— which discourage people from saving as they would rather buy assets whilst they can— firms claim they simply do not have the money to pay back because overall demand for goods and services is weak. They attribute this to the continuously deteriorating spending power of Zambians and Zambian firms, coupled with the rise in costs due to inflationary pressures and the general economic recession. Zambian firms have had a difficult time because they have had to import inputs, machinery and spares at the imported inflation rates while not being able to increase local prices to the level of inflation.

Tightening of monetary policy by the Bank of Zambia as part of SAP has also in recent years resulted in a severe liquidity squeeze. The Bank of Zambia has induced the liquidity squeeze— to try and control inflation— in several ways. Statutory reserve deposits— that is interest-free deposits placed by commercial banks with the Bank of Zambia on an

enforced basis— were as high as 35 percent of all current account deposits and 26 percent of all other deposits in June 1990 (Standard Bank Zambia, 1990). In addition all commercial banks have had to hold liquid assets of as high as 55 percent of all deposits from the public (ibid) meaning they could only lend 45 percent of deposits received. Their reserve requirements— the amount of money commercial banks are required by law to keep with the BOZ— have also been increasing and, coupled with BOZ-induced limitations on over-draft facilities— have all tended to limit the amount of liquid assets banks can lend and transact with companies and individuals. This point is supported by Killick and Martin (1990: p18).

Killick and Martin (ibid) point out that such central bank requirements as the above tend to distort interest rates. Given the low to zero interest rates commercial banks receive on their reserves, they are forced to institute wider margins on lending rates in order to make profits.

For a sector over-dependent on imported raw materials, intermediate goods and machinery, the repeated devaluations of the Kwacha have put an enormous strain on the cash-flow position of both private and public firms. The high borrowing rates— companies claim— have worked against manufacturing but in favour of trading, both legal and "brief-case". As Magande's Kitwe conference paper (1992) confirms, banks have not helped this situation since most of them prefer short-term lending which, in the hitherto uncertain economic climate, is more profitable and less risky.

7.4.3 **Policy instability**

Economic policy instability emerged as the third most serious problem in our rankings. 19 of the 33 firms— or 58 percent— ranked it as first (7), second (8) and third (4 firms). They blame uncertainty and the stop-go policies of the Zambian government for their inability to do any strategic planning. Only two of the 33 firms (Ndola Lime Ltd and Scaw Ltd)— both parastatals— gave this factor a ranking of 9, perhaps reflecting the favoured treatment SOEs have enjoyed from the

government. From table 7.6 we observe that this factor in fact ranked second among both multinationals and private companies, reflecting what we termed in chapter 6 as Kaunda's "blow-hot, blow-cold" attitude towards the private sector generally. Parastatals, by contrast, gave the factor a low average ranking of 7, perhaps reflecting the government bias towards SOEs that we suspect.

During Bank of Zambia forex allocations, for instance, parastatals are understood to have been favoured over private firms in forex allocations. By contrast, the 1985-87 forex auctioning period was governed to some degree by ability to raise Kwacha cover— which most parastatals did not have. One of the reasons the auction failed (see among others Onimode 1989: p40 and Sanderson 1987) is that it turned out that 90 percent of the forex auctioned went to only 100 firms, 99 percent of whom were foreign-owned. Onimode (ibid: p40), quoting the Bank of Zambia governor, says the use to which the successful multinational bidders put their forex allocations was not in harmony with Zambia's long-term development needs:

"In referring to the abolishing of the auction system, the governor of the BOZ pointed out that ... many of these foreign companies expended the scarce forex frivolously on some goods that were readily available locally, including dog food!".

7.4.4 Other problems

Other problems relate to unreliable local transport (ranked 4th); increased competition due to trade liberalisation (ranked 5th); lack of knowledge about foreign markets (ranked 7th); and inadequate local management talent (ranked 8th). Of the 22 companies who ranked inability to remit dividends and royalties, 15 (or 68 percent) gave it a ranking of 8 or 9, meaning it has not been a problem. This makes sense, given that only foreign-owned or multinational companies— we have only 7 in our sample— would normally have any reason to make such remittances. Table 7.6 reveals that only MNCs gave inability to remit dividends the highest average ranking— of 4. Colgate Palmolive (Zambia) Ltd, one of our 4 cases in chapter 8, gave it the maximum ranking of 1.

7.4.5 Other significant sector-specific problems that emerged during our interviews

(a) **Political interference among parastatal companies:** SOEs have been weary of GRZ interference in all aspects of their operations. They attribute their relatively poor record partly to their inability to make the crucial decisions themselves, such as on employment and price levels. A few SOEs complained to us that they would have preferred to "operate more as a business and less like some Minister's back-yard garden". As late as 1991, for instance, we were told that two Ndola-based SOE-manufacturers of essential goods had to liaise with a member of the Central Committee[1] on the sale and distribution of both refined sugar and cooking oil to wholesalers, retailers and to areas outside the Copperbelt Province. The ensuing operational problems were for a long time a source of concern to management at the two firms. It is both sugar and cooking oil shortages that first gave prominence to the **black-marketeering** and **smuggling** phenomena in Zambia.

Administrative controls in both pricing and distribution (see also appendix case 7.1 which elaborates on these SOE-specific problems) were put in place to control and monitor commodities of strategic importance, such as maize. The result of such controls as limits on price increases and sales outlets was an exacerbation in smuggling of such items as maize, sugar and cooking oil to neighbouring nations.

(b) **The agro-based sector and effects of the drought:** as the field research was being wound up in early May 1992, fears were emerging in Zambia in general and among our sample in particular, regarding the impact of the 1991/92 drought[2]. Companies in the agro-based and textile sub-sectors— who have the strongest backward linkages with agriculture— expressed the most concern regarding the shortage of rains, fearing that this would in turn affect their raw material supplies.

(c) **The textile sub-sector:** the seven textile firms we interviewed told us that the following production constraints have also affected their performance: (i) the effects of trade in second-hand clothes (called

Salaula) from Zaire and Europe; (ii) preference by local garment manufacturers to use imported fabrics which they deem to be better and cheaper; (iii) inability to import spare parts for machinery initially due to lack of foreign exchange, now due to the high cost of foreign exchange which is obtainable at the market rate. During the foreign exchange auction period in 1985 one clothing manufacturer— whose identity we were asked to keep confidential— is known to have remarked:

"...Of even greater concern is the situation with regard to imports. With local supplies restricted to a limited range of fabrics and elastics, an adequate supply of imported sewing thread and trimmings is essential. But it's becoming more and more difficult to obtain import licences and the forex to back them. To make matters worse, the Ministry of Commerce and Industry seems unable to appreciate that clothing cannot be made from fabric alone, and the Ministry has declared that clothing manufacturers are to be removed from the list of importers. This decision is so patently ridiculous that it is hard to take it seriously. Unfortunately, however, the Minister and his officials have shown little understanding of industry in general and the clothing sector in particular".

Other significant sub-sector problems relate to 'iv) lack of a local dye-production and processing plant; (v) low cotton production in recent years because the two main source areas— Southern and Central Provinces— have in recent years been the most drought-prone; and finally (vi) firms complained of payment problems from such export markets as Zaire and Angola due partly to political instability in these countries.

(d) **The health-care/pharmaceuticals sub-sector:** firms in this sub-sector complained of unfair competition from what they told us are "cheap, unlicensed imports of drugs, which are sold across-counter without prescription".

(e) **Captivity to the mining industry by the metal and machinery sub-sector:** the overwhelming majority of companies in this sub-sector told us they are inextricably tied to the mining industry (ZCCM), the latter accounting for in excess of 70—75 percent of their sales. The dangers of this captivity, given the expected diminishing role of the mining industry in the foreseeable future, need no further elaboration. Already, a number of firms complain about poor settlement of invoices by ZCCM

(reportedly due to its own poor liquidity), leaving them with large accounts receivable balances.

In section 7.5, next, we sought to discover employment, sales and profit performances of the sample by type of ownership.

7.5 **Employment, sales and profitability factors**

Table 7.8 reveals that parastatal companies employ four times more employees (587 per firm) than MNCs (145) and three times more than private companies (196). This tends to reflect the commonly held view that SOEs are usually over-staffed. In appendix 7.4 we present employment levels by individual company for 1983 to 1990.

TABLE 7.8 SURVEY RESULTS: NAMES, OWNERSHIP CATEGORY AND EMPLOYMENT LEVELS IN THE MANUFACTURING SECTOR, SELECTED YEARS.

	1983	1984	1986	1987	1989	1990	AVERAGE 1983-90
TOTAL SAMPLE EMPLOYEES	5953	5979	6027	6060	5458	5556	
TOTAL RESPONSES, OVERALL	19	19	22	23	23	23	
PARASTATAL FIRMS RESPONDING	5	5	5	5	5	5	
MULTINATIONALS RESPONDING	5	5	6	6	6	6	
PRIVATE FIRMS RESPONDING	9	9	11	12	12	12	
AVGE EMPLOYMENT PER COMPANY	313	314	274	263	237	241	274
AVGE EMPLOYMENT, PARASTATALS	666	684	642	606	458	465	587
AVGE EMPLOYMENT, MNCs	144	146	137	138	150	155	145
AVGE EMPLOY, PRIVATE FIRMS	231	203	181	184	186	188	196

SOURCE: THE 43-COMPANY SURVEY

In table 7.9 we present the average sales and profits perfomance by type of ownership. With regard to sales, figure 7.2 reveals that an average SOE generated more sales revenue than either an average MNC or private firm between 1983 and 1989. In 1989 SOEs and MNCs generated more or less the same sales revenue: K115 million for an average SOE, against K111 million for an average MNC. In 1990, an average MNC generated K237 million sales against K221 million for SOEs. Private firms, on the other hand, have been a distant third in sales revenue throughout the period— at K89 million in 1989 and K106 million in 1990.

FIGURE 7.2
AVERAGE SALES

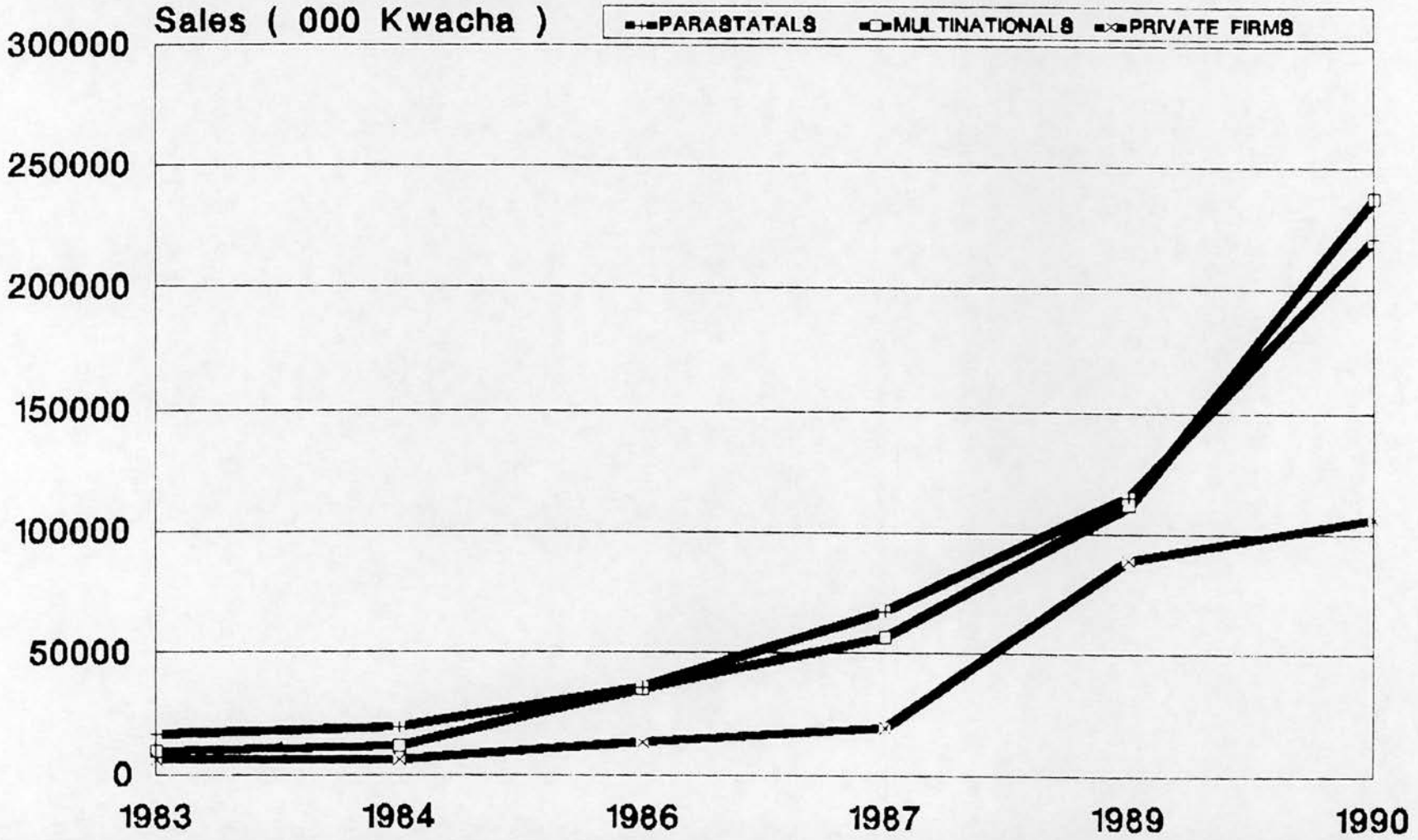


TABLE 7.9 : AVERAGE SALES AND PROFITS PERFORMANCE OF THE SAMPLE BY TYPE OF OWNERSHIP, 1983-1990 [000' KWACHA]

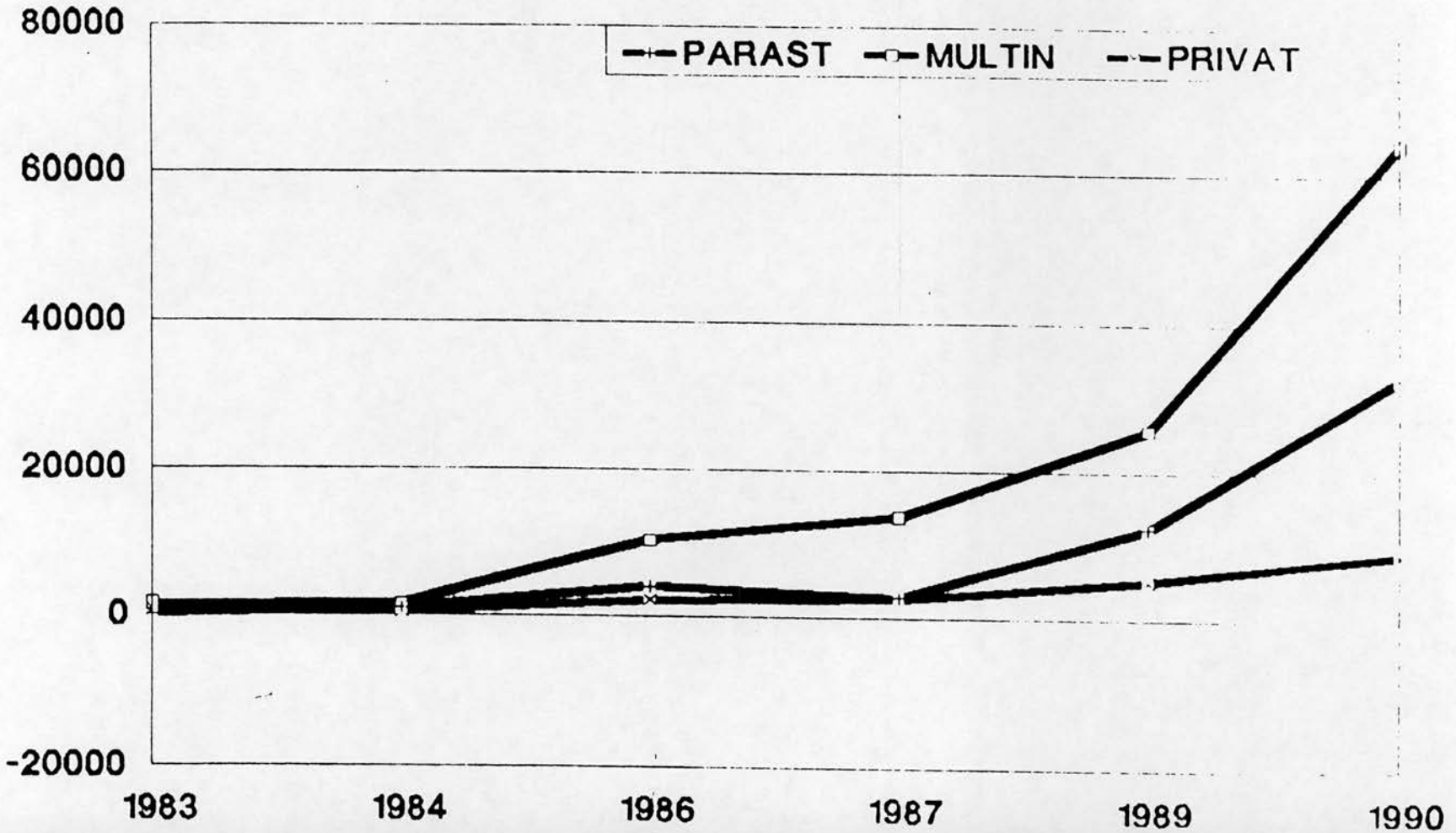
(a) SALES	1983	1984	1986	1987	1989	1990	AVERAGE
AVGE SALES, PARASTATALS	16619	19479	36233	67118	115202	220930	79263
AVGE SALES, MULTINAT	9699	11928	35861	57178	111396	237366	77238
AVGE SALES, PRIVATE FIRMS	6475	6272	13538	20104	88851	106145	40230
(b) PROFITS							
AVGE PROFIT, PARASTATALS	-48	862	4013	2803	12317	32944	8815
AVGE PROFIT, MULTINAT	1450	1518	10213	13824	25714	64071	19465
AVGE PROFIT, PRIVAT FIRMS	761	555	2264	2460	4992	8963	3332
(c) SALES PER CAPITA							
AVGE FOR SOE EMPLOYEES	25	28	56	111	251	475	135
AVGE FOR MNC EMPLOYEES	67	82	262	414	743	1531	532
AVGE FOR PRVT-FIRM EMPL	28	31	75	109	478	565	205
(d) PER CAPITA PROFITS							
AVGE FOR SOE EMPLOYEES	0	1	6	5	27	71	15
AVGE FOR MNC EMPLOYEES	10	10	75	100	171	413	134
AVGE FOR PRVT-FIRM EMPL	3	3	13	13	27	48	17
TOTAL RESPONSES	26	26	29	29	30	30	

SOURCE: THE 43-COMPANY SURVEY

With regard to profits (figure 7.3), the picture is radically different. An average multinational company is found to have made twice as much profit as a parastatal firm in all the years between 1986 and 1990. Private firms, again, have been a distant third. In appendix 7.5 we provide a complete list of companies and their sales levels, while appendix 7.6 provides their profit levels for 1983 to 1990. In trying to account for this differing profit performance, we can only conjecture that it has been due in part to:

(a) Over-manning and inefficiencies in the parastatal sector, leading to higher costs of production and lower profits compared to MNCs. Tables 7.8 and 7.9, combined, confirm this. Table 7.9 reveals that both multinational companies and private firms have been generating more sales per capita (per employee) than parastatal firms. The two tables do show that SOEs had 4 times as many employees as MNCs and twice as many as private companies per unit of sales. Per capita sales for MNCs is found to have averaged K532,000 between 1983 and 1990, compared with K205,000 for private firms and only K135,000 for employees in the parastatal sector. Even profits per capita have shown a similar trend—K134,000 for MNC employees, against only K15,000 per parastatal employee.

FIGURE 7.3
AVERAGE
PROFITS BY OWNERSHIP, 000 K



(b) More competition in the private sector compared to parastatals. Parastatal firms have mostly operated in businesses where they have enjoyed monopoly or duopoly positions.

7.6 Finance and Accounting factors

We attempt, in this section, to evaluate other aspects of the financial performance of our sample. We do this by examining financial ratios based on income statements and balance sheets.

7.6.1 **Profitability:** three profitability ratios in table 7.10 were computed to measure the manufacturing sector's profitability.

(a) Return on Sales/Net Profit margin: this ratio gives a measure of net Kwachas generated by each Kwacha of sale. The average for the manufacturing sector for 1983-90 is 14 percent.

At sub-sector level, table 7.10 shows enormous variations. In the chemicals sub-sector, for instance, return on sales was 18 percent in 1983, falling to 8 percent in 1989. The agro-based sub-sector, in contrast, averaged 7 percent in 1983, rising to 16 percent in 1989. The table shows other wide fluctuations, making it impossible to establish any particular trend for the entire manufacturing sector. The reason lies mainly in three factors that we have already discussed— import-dependence, forex shortages, and high levels of inflation. When firms have enough forex to import raw materials in a particular year— as they did in 1988 when copper export prices and revenues rose and good rains induced growth in the agricultural sector— they may produce more and earn more, thereby improving their profit positions. Secondly, as Aragon (1982: p94) points out, high inflation does not have uniform and strictly proportional impacts on a firm's financial statements and consequently can bias the results of ratio analysis.

Expenses may reflect pre-inflation conditions— inventory for instance may have been acquired before the rise in inflation, reflecting "historical" rather than current costs of doing business. The income

statement will show an increase in net income due to the non-uniform impact of inflation rather than to any fundamental improvement in management performance (ibid: p95). Because of various lags the balance sheet will not automatically reflect the higher costs of doing business due to inflation: cash, accounts receivable and inventory may show the inflation effects quickly, but fixed assets and debt accounts may take longer to reflect the impact of inflation (ibid: p97).

Table 7.10 Selected Profitability Ratios by sub-sector, selected years.

NAME OF SUB-SECTOR	1983	1984	1986	1987	1989	1990	Number of firms
(A) Return on Sales (%)							
1 Chemicals, Plast, Petrol	17.9	12.5	21.1	21.8	8.1	28.2	11
2 Wood and Paper Products	14.4	3.8	20.8	2.7	-1.1	3.6	3
3 Agro-Food and Drinks	6.7	7.1	7.8	7.6	16.1	14.3	5
4 Textiles and Garments	8.8	8.0	22.5	19.4	10.5	9.7	4
5 Healthcare/Pharmaceut	19.0	15.0	24.5	21.5	20.0	22.0	3
6 Metal and Machinery	9.0	2.9	18.9	15.6	14.7	10.9	4
Average for manufacturing	12.6	8.2	19.3	14.8	11.4	14.8	
(b) Return on Assets (%)							
1 Chemicals, Plast, Petrol	71	75.4	88.8	99.5	88.3	199.5	
2 Wood and Paper Products	12.8	3.0	21.7	4.2	-1.2	3.3	
3 Agro-Food and Drinks	25.1	19.4	9.7	12.1	16.6	28.3	
4 Textiles and Garments	60	78.9	296	92.8	48.4	162	
5 Healthcare/Pharmaceut	27	24	34	29	25.5	32	
6 Metal and Machinery	83.3	4.6	22	16.1	14.5	13.5	
Average for manufacturing	46.5	34.2	78.7	42.3	32.0	73.0	
(c) Gross Profit Margin (%)							
1 Chemicals, Plast, Petrol	49.4	74.8	88.5	74	68	79	
2 Wood and Paper Products	19.4	3.8	31.8	24	25.5	23.6	
3 Agro-Food and Drinks	15.3	17.3	16.3	17	23.3	30.6	
4 Textiles and Garments	23.3	26.2	32.3	33.2	29.2	35.3	
5 Healthcare/Pharmaceut	47	48	56.5	56.5	60	57.5	
6 Metal and Machinery	23.5	17.9	28	40.3	40.9	35.1	
Average for manufacturing	29.7	31.3	42.2	41.0	41.0	43.5	

In a manufacturing sector beset by low capacity utilisation (34 percent) problems, the 14 percent net profit margin would have been surprising but for the fact that some private and multinational firms, enjoying monopoly or duopoly status, have been able to increase their prices with no corresponding increases in volumes produced or sold. Other factors relate to the presence of SOEs, which we highlight further in chapter 8 with the case of Monarch (Z) Ltd. For instance Zambia Cold Storage Corporation Ltd of Lusaka (producers of animal-related products such as beef, sausages and ice-creams) returned net losses of K4.7 million in 1983,

K0.827 million in 1984, K6.1 million in 1987, and K2.94 million in 1990. The only profit, of K12.229 million in 1986, was the direct result of an K18 million subsidy received from the Zambian government in that year— which contributed to the positive return on sales in 1986 in the agro-based sub-sector.

(b) Return on assets/return on investment (ROI): return on investment measures the earnings on investment and indicates how well a firm utilises its asset base (Gibson and Frishkoff 1983: p258). Looking at table 7.10 we notice unusually high ROI ratios. For the manufacturing sector as a whole, ROI "improved" from an unusual 47 percent in 1983 to 73 percent in 1990, with unusual ratios of 296 percent (in 1986) and 200 percent (in 1990) recorded by the textiles and chemicals sub-sectors respectively.

The explanation for the unusually high ROI ratios lies in asset values in a period of increasing inflationary pressures, as has happened in Zambia. Baruch (1974: p15) points out that the historical valuation of assets in the balance sheet will bias ROI upward during periods of rising price levels. While the numerator of the ratio (net income) is, to a large extent, measured in current values, the denominator (total assets) is measured in historical prices which are usually lower than current prices. Comparison of profitability ratios of firms with different asset ages in an inflationary economy like Zambia's is therefore to be treated with extreme caution. Baruch (ibid: p83) goes so far as to say historical cost valuation during inflationary periods actually hinders meaningful inter-firm comparisons because financial data are dependent on the timing of asset acquisition, a factor that affects our data as well.

Our field-work interviews with the 7 Financial Controllers and 33 Chief Accountants mentioned in chapter 3 revealed that except in the case of 5 of the 7 multinational firms, a majority of the other firms have had no particular pressure or need to re-value their assets. This is especially so since 1992 because the value of the Kwacha has been deteriorating almost daily under the market exchange rate system. One financial accountant commented: " it becomes difficult— if not meaningless— to

revalue our assets today, when I know the valuation will be useless in another 3 days because the Kwacha continues to lose value".

(c) Gross profit margin: gross profit is the difference between net sales revenue and the cost of goods sold—COGs— (Gibson and Frishkoff 1983: p262). COGs, computed as beginning inventory plus purchases minus ending inventory, represents the cost of the product sold during the year. Overall, the gross profit margin declined for manufacturing between 1986 and 1989 for reasons that include the following:

(i) The cost of buying inventory increased due to Kwacha devaluations much more rapidly than the majority of firms were able to increase selling prices. This implies that there was some price control, which indeed there was among some parastatal companies. As recently as 30 June 1989 there were still more than 23 commodities whose prices were still set by statute (GRZ 1989b: p17)— a point we noted in part (e) of table 5.1 in chapter 5. Otherwise, producers of tradables should ordinarily enjoy price increases as the Kwacha depreciates.

(ii) In a few companies, we were told that pilfering became more pronounced as employees helped themselves to company property in a bid to beat the high cost of living. Such stolen goods usually end up on the black market, whose prices usually entice such employees to go back to the company for some more. When such theft is occurring, the ending inventory will be low and the COGs will be high, with gross profit consequently low.

7.6.2 **Liquidity:** what is the evidence on the manufacturing sector's reservoir of liquid assets relative to maturing liabilities during 1983-90? From the current ratio in table 7.11, it would seem at first that all 6 sub-sectors have maintained reasonably sound liquidity positions, with the current assets averaging 1.75 times current liabilities. This is larger than the 1.5:1 text-book rule of thumb. **But we need to go beyond these figures and see why this ratio has been "high". Several important explanations emerge:**

Table 7.11 Selected Liquidity Ratios by sub-sector, selected years.

NAME OF SUB-SECTOR	1983	1984	1986	1987	1989	1990	Number of Companies
(A) Current Ratio (T)							
1 Chemicals, Plast, Petrol	1.5	1.5	1.3	1.5	3.4	8.1	11
2 Wood and Paper Products	1.4	1.4	1.8	1.8	1.1	1.5	3
3 Agro-Food and Drinks	1.4	1.4	1.5	1.7	1.9	0.9	5
4 Textiles and Garments	1.6	1.5	1.8	1.8	1.8	1.3	4
5 Healthcare/Pharmaceut	1.4	1.6	1.4	1.8	1.7	1.7	3
6 Metal and Machinery	1.3	1.3	1.5	1.1	1.4	1.3	4
Average for manufacturing	1.4	1.5	1.6	1.6	1.9	2.5	
(B) Quick Ratio (%)							
1 Chemicals, Plast, Petrol	54	42	50	112	59	51	11
2 Wood and Paper Products	93	85	105	111	44	73	3
3 Agro-Food and Drinks	54	51	68	66	67	14	5
4 Textiles and Garments	103	91	115	132	108	74	4
5 Healthcare/Pharmaceut	73	89	35	40	40	47	3
6 Metal and Machinery	55	44	76	62	57	61	4
Average for manufacturing	72	67	75	87	63	53	

SOURCE: THE 43-COMPANY SURVEY

(a) Presence of SOEs: a major distortion comes from the presence of parastatal companies in 4 of the 6 sub-sectors examined. Some of these have been receiving government subsidies, thereby boosting their current asset positions. We have already alluded to Zambia Cold Storage Corp Ltd as having made the only profits in 1986 because of an K18 million subsidy from GRZ.

(b) Secondly, we have also to look at what is happening to both accounts receivables and inventory. Table 7.12 reveals that in fact the average collection of receivables (in days) has been worsening consistently from just over 2 months in 1983 to just under 4 months (115 days) in 1990. Since the evidence from sample financial statements indicates that the bulk of the sector's current assets are tied up in both receivables and inventory— see table 7.13— the 1.75 current ratio gives a false impression.

Appendix 7.7 provides a break-down of current asset accounts by company. The results are summarised in table 7.13. From table 7.11 we note that the quick ratio, which is a stricter test of liquidity[3] than the current ratio, is worsening for all sectors on average from 72 percent in 1983 to 53 percent in 1990. This means that the most liquid assets of cash, accounts receivables and marketable securities have been consistently dropping during this period, increasing dependency on inventory to liquidate short-term debt. Table 7.13 confirms this point.

It shows that cash— the most liquid of current assets— has consistently dropped as a percentage of total current assets: from 13 percent in 1983 to 5 percent in 1990. The table shows that in 1983 inventory accounted for 55 percent of current assets, rising slightly to 57 percent in 1990. This means that firms are not liquid enough to pay short-term liabilities, since current assets are tied up in both accounts receivable and inventory, with the latter not easily convertible to cash.

Table 7.12 Selected Turnover Ratios by sub-sector, selected years.

Name of Sub-sector	1983	1984	1986	1987	1989	1990	Number of firms
(A) Average Collection of Receivables (Days)							
1 Chemicals, Plast, Petrol	53	67	59	46	88	258	11
2 Wood and Paper Products	98	147	99	101	85	75	3
3 Agro-Food and Drinks	31	39	64	97	109	77	5
4 Textiles and Garments	125	130	262	223	142	115	4
5 Healthcare/Pharmaceut	5	4	59	68	49	47	3
6 Metal and Machinery	143	119	109	51	102	120	4
Average for manufacturing	75.8	84.3	109	97.7	96	115	
(B) Day's Inventory (Days)							
1 Chemicals, Plast, Petrol	76	106	98	106	89	131	
2 Wood and Paper Products	65	125	118	87	94	65	
3 Agro-Food and Drinks	69	59	121	162	145	102	
4 Textiles and Garments	124	120	191	156	164	167	
5 Healthcare/Pharmaceut	105	86	107	134	143	132	
6 Metal and Machinery	118	175	91	112	134	96	
Average for manufacturing	93	112	121	126	128	116	

TABLE 7.13: LIQUIDITY PROBLEMS REFLECTED IN THE PERCENTAGE BREAK-DOWN OF CURRENT ASSETS IN OUR SAMPLE

	1983	1984	1986	1987	1989	1990
CASH (%)	13	11.8	9	8.6	7.5	5.2
ACCOUNTS RECEIVABLE (%)	32.2	33.2	28.6	30.6	35.5	37.8
INVENTORY (%)	54.8	55	62.4	60.8	57	57
TOTAL CURRENT ASSETS	100%	100%	100%	100%	100%	100%

SOURCE: THE 43-COMPANY SURVEY

The earlier impression regarding reasonable liquidity of Zambia's manufacturing sector (measured by the current ratio) should therefore be modified: liquidity, as measured by the acid test or quick ratio has actually deteriorated during the period. The principle behind the acid test ratio is that some current assets and current liabilities can not be converted into cash or payable as rapidly as others. Inventory is one such asset (Gibson and Frishkoff 1983: p6).

Table 7.14 Selected Debt Ratios by sub-sector, selected years.

NAME OF SUB-SECTOR	1983	1984	1986	1987	1989	1990
(A) Debt Ratio (%)						
1 Chemicals, Plast, Petrol	32	32	45	83	33	27
2 Wood and Paper Products	62	59	36	47	43	25
3 Agro-Food and Drinks	98	75	76	95	100	106
4 Textiles and Garments	56	53	38	27	43	59
5 Healthcare/Pharmaceut	58	50	52	45	54	51
6 Metal and Machinery	72	82	66	78	56	60
Average for manufacturing	63	59	52	63	55	55
(B) Debt to Equity Ratio (%)						
1 Chemicals, Plast, Petrol	-3	-249	363	106	87	85
2 Wood and Paper Products	144	113	232	286	390	560
3 Agro-Food and Drinks	115	91	110	126	161	191
4 Textiles and Garments	211	259	85	60	85	204
5 Healthcare/Pharmaceut	337	160	227	179	210	225
6 Metal and Machinery	87	96	126	95	79	82
Average for manufacturing	149	78	191	142	169	225

Even the length of time units are in inventory (the inventory holding period or day's inventory, see table 7.12) has deteriorated for the 6 sectors from 93 days in 1983 to 116 days in 1990, indicating a lowering of liquidity. **This finding regarding strained sector liquidity since 1983 is consistent with findings earlier in this chapter about a general liquidity squeeze during SAP.**

7.6.3 **Debt—Equity position:** what is the capacity of the Zambian manufacturing sector to pay long-term debt? In other words, how much financial risk is associated with the sector? Debt ratios in table 7.14 enable us to make some judgments on this vital question.

(a) Debt ratio: the average debt ratio for the whole sector improved slightly from 63 percent in 1983 to 55 percent in 1990. The average for the period, however, was 58 percent, and in all the years the ratio remained well above 50 percent. This means that more funds are provided by outsiders than by owners of respective firms. In short, the risks of the sector have been shifted to outsiders, and they are not very well protected in case of insolvency.

(b) Debt to Equity ratio: comparison of the sector's total liabilities to shareholders' equity also reveals a weakening long-term debt paying ability. The average has worsened from 149 percent in 1983 to 225

percent in 1990, indicating that substantially more funds come from outsiders than are provided by shareholders' equity. Over-reliance on debt rather than equity financing, as revealed by both the debt ratio and the debt to equity ratio, connotes higher financial risk shifted to creditors. What is more, the sector's future borrowing power is now limited by the fact that few sources remain un-used.

7.7 Other findings common to the manufacturing sector

7.7.1 **Transfer pricing:** the inability of multinationals and joint ventures hitherto to remit dividends out of Zambia due to reasons such as shortages of hard currency and government-controlled forex allocations is a well-documented fact. It is not surprising, therefore, that a number of affected Managing Directors and General Managers freely admitted[4] to us using transfer pricing practices to channel income remission. They have been doing this by overpricing imports from abroad and/or underpricing exports. The 100 percent foreign exchange retention scheme— FERS— will go a long way towards addressing the problem of dividend remission as MNCs are now free to buy forex on the market. It remains to be seen whether this will not in fact result in a net outflow of forex resources by MNCs.

7.7.2 **Passive versus Active exporters:** our interviews among exporting firms revealed a preponderance of passive exporters over active ones, that is those firms who simply wait for unsolicited orders or enquiries but are unwilling to seek orders— as opposed to those such as Swarp Spinning Mills Ltd (chapter 8) who adopt a planned approach to the search for overseas market opportunities. The Managing Director of Swarp, for example, told us he makes market research and follow-up visits to the United Kingdom— accompanied by members of the marketing department. They encourage foreign customers— such as Burnet & Walker of Glasgow, elaborated in chapter 8— to pay reciprocal visits to Ndola for an on-the-spot check of products and production facilities and other related matters.

7.7.3 **The 100 percent forex retention scheme:** the foreign exchange retention scheme, FERS, is undoubtedly one of the most popular of the government's strategies to encourage non-traditional exports. The retention rate was 50 percent between 1985 and January 1992, when it rose to the 100 percent now in operation. FERS allows exporters of NTEs to retain 100 percent of their forex earnings in their local accounts and either to use it for their own needs or to sell it to other firms at a freely negotiable exchange rate.

The rationale for allowing this 100 percent retention, in a forex-starved economy like Zambia's, is that: (a) this will allow companies, the majority of whom are raw material import-dependent, to buy inputs directly from their own earnings, therefore those who earn enough do not have to queue for forex allocations from BOZ although—as we shall see shortly— there are currently unnecessary transaction costs; and, ultimately, (b) that this will not only increase capacity utilisation rates, but that it will also encourage non-exporters traditionally used to getting forex from Bank of Zambia to start looking for and entering external markets themselves. A combination of factors— the high Kwacha value of the retention rate, the continuing shortage of forex nation-wide, and other government measures— is meant to force manufacturers to take the issue of exporting more seriously.

7.7.4 **The South African factor:** trade between Zambia and South Africa has been going on, underground, long before the on-set of current apartheid reforms, in breach of UN sanctions against Pretoria. Now, however, there is open trade with Zambia and other countries in Southern Africa. For Zambian manufacturers of both export and local products, the competition is already proving severe as they run head-on into South African traders not only in their own "back-yards", but also in the neighbouring states of Malawi, Zimbabwe, Angola, Mozambique, Tanzania, Kenya, Namibia and Botswana. The pressure stems from the enormous strength and dominance of the South African economy— estimated at 3 times the combined economies of the Preferential Trade Area (PTA)— and the superiority of South African products.

More specifically, appendix case 7.2 reveals that the South African government provides more attractive incentives to exporters. They include cash payments on exported goods and tax deductions of up to 200 percent of export manufacturing expenditures. South African exporters can also claim marketing costs such as 50 percent of return air tickets to new market countries, 50 percent of transport costs of samples and accommodation costs of up to 300 rands ($109) per day (African Business, September 1992: p12). Appendix case 7.3— a letter we were allowed to use by its author— points out other strengths that South African manufacturers have over Zambia's. They include a broader raw material base, much better production facilities, lower finance costs, better access to foreign exchange, and far more superior products than Zambia's.

By comparison, Zambia does not have much to offer by way of export incentives. The 100 percent forex retention scheme is by far the country's best export incentive. The Export Board of Zambia (EBZ 1990: p3) reports that as late as 1990 companies were paying import levy, sales tax and import duty upfront on imported raw materials for export sales— which the EBZ says was taxing on any firm's profitability, made worse by the credit squeeze, high interest rates and the cumbersome duty drawback scheme[5]. The EBZ further questions the government's scrapping of Article 50— the Customs and Excise regulation introduced in 1990 to permit the importation of plant and machinery duty-free.

7.7.5 **The AIDS factor:** a number of managers we interviewed pointed out that AIDs threatens the manufacturing sector with problems of falling efficiency and productivity due to disability, rising sick leave and time taken off work to care for others, and, of course, finding replacements for premature casualties. It was impossible to get any statistics.

They could not provide specific figures because it is not easy to ascertain hospital records due to the secret nature, at the time, of AIDs-related illnesses. It is worth mentioning that if the AIDs problem persists— and there are no signs that it will not— then it is reasonable to expect that it will reduce the incentive for companies to train and re-train workers.

7.7.6 **Retention-lags:** it takes too much time— we were told from two to eight months— for firms to actually get their forex from Bank of Zambia once it arrives in the country because, as one Managing Director pointed out, the Bank of Zambia, the Ministry of Commerce, Trade & Industry, the Ministry of Finance, and Customs do not know what the other is doing. Instead of working together to ensure that the system is efficient they at times work at cross purposes. The result has been unnecessary transaction costs for exporters as they have to lobby Ministers and queue up for their own forex.

7.7.7 **The 3CI+WIF Syndrome:** a kind of syndrome therefore emerges to describe the major problems in Zambia's manufacturing sector. We choose to call it the 3CI+WIF Syndrome, referring to: sluggish consumer demand, the credit squeeze, capacity underutilisation, high interest rates (which have put credit out of the reach of most manufacturers), working capital/liquidity deficiencies, inflationary trends, and foreign exchange shortages.

7.8 **What, then, has it been like operating during structural adjustment for Zambian manufacturing firms?**

This chapter has to answer, ultimately, the vital question of what life has been like for Zambian firms during the structural adjustment period. It will already be clear, perhaps, that given the sector's major problems we have classified the 3CI+WIF syndrome, life for manufacturing companies has not been easy— to say the least. The common threads running through most of the interviews we held with the managers described in chapter 3 centre around operational difficulties brought about by shortages of foreign exchange to import raw materials, as well as the increasingly uncertain economic climate characterised by stop-go economic policies and rising inflation.

We heard such phrases as: "it is a hand to mouth situation"; "the only thing that is certain in this country is that things will continue to be uncertain, thereby making it hard for us to plan for the future". As liberalisation measures were being implemented at the time we were

winding up our field research in May 1992, the marketing manager for Refined Oil Products Limited (ROP) in Ndola— the Chairman of Zambia Institute of Marketing (ZIM) who earlier on helped us pretest the questionnaire— told us "this is going to be a sink or swim situation for most companies, things are getting increasingly uncertain".

In the two sub-sections that follow, we attempt to shed more light on the operational difficulties faced by companies during adjustment.

7.8.1 **Shortages of foreign exchange, and the raw materials it is supposed to buy:** we have already referred to the high levels of import dependence in the sample. For example, 36 of the 43 companies answered the alternative question of whether they considered themselves as using more local than imported raw materials. 80 percent said they use more imported raw materials than local ones, for the reasons we outlined in section 7.3 and summarised in table 7.4 of this chapter.

Given that most companies sell their products on the domestic market— the 21 companies that answered this question have an average home-market orientation of 93 percent[6]— they have not been generating enough of their own foreign exchange to import inputs. Capacity utilisation rates have suffered as a result. All the companies interviewed said they have had to completely suspend production at one point or another since 1983, when Zambia's economy went into what Jaycox— the World Bank Vice-President for Africa— likes to call free-fall. It is not that raw materials have been the problem, the problem has been lack of foreign exchange to import them. Even this has not been the major problem.

The major problem is that these companies are import-dependent, and they need foreign exchange to import. They do not have it. As a result of the above scenario, workers have sometimes been sent on forced leave, sometimes at 50 percent pay. Some redundancies have been inevitable. Table 7.8 indicates that employment in the sample declined from 5,953 employees in 1983 to 5,458 in 1989, rising marginally to 5,556 in 1990. These redundancies have had serious consequences for the labour-management relations climate, with strikes reportedly reaching

unprecedented levels especially during the first 14 months of MMD rule.

As foreign exchange shortages were the most cited problem, we asked our sample whether it mattered to them what type of foreign exchange allocation method was used by the government. The four foreign exchange allocation methods were defined and elaborated upon in chapter 5. Table 7.15 gives the results.

Table 7.15: Foreign exchange allocation preferences by type of firm

	SOEs	MNCs	PRIVATE	TOTAL	%
Bank of Zambia allocations	2	0	2	4	14
Forex Auction allocations	0	3	1	4	14
FEMAC allocations	5	1	5	11	38
1st and 2nd window allocations	1	0	9	10	34
Total	**8**	**4**	**17**	**29**	**100%**
Missing values	5	3	6		

Care must be taken in interpreting the results in table 7.15. One has to remember from chapter 5 that both the Bank of Zambia (BOZ) and Foreign Exchange Management Committee (FEMAC) allocations were administrative as opposed to market-based. The Auction allocations and the 1st and 2nd window methods, on the other hand, were market-based, both were less prone to human bias and manipulation. With these points in mind, we note from table 7.15 that 52 percent of the respondents said they preferred the BOZ and FEMAC allocations, while 48 percent said they preferred the market-based methods. Further reflection, however, reveals some interesting results. Of the 8 parastatals that responded, 7 (or 88 percent) indicated they preferred the BOZ and FEMAC, government-administered allocation methods. None liked the Auction system.

When interviewed, the parastatal companies indicated that it was easier for them to get foreign exchange under these methods because they could then afford the relatively low Kwacha cover needed to buy foreign exchange— in contrast to the market-based systems when the foreign exchange was more expensive to obtain, in Kwacha terms. Although none could confirm it— they could not be expected to— we suspect (but are

not able to prove) that as fellow government institutions, parastatals received preferential treatment from both the BOZ and FEMAC. The same could be argued about the 7 private companies in table 7.15 (that is 41 percent of the responding private firms) who said they liked the BOZ and FEMAC allocations better. We suspect they must have had contacts in the Bank of Zambia who were always ready to "assist" them, perhaps at an extra "after-office-hours" price.

In contrast, 10 of the private companies and 3 of the 4 responding multinational companies— that is 46 percent of the 29 responding companies— indicated preference for the two market-based allocation methods. Their reasons are the complete opposite of those advanced by parastatal companies. These companies had the Kwacha cover to buy foreign exchange at higher exchange rates, it is just that under BOZ and FEMAC the available foreign exchange was first allocated to parastatal companies— or so they claimed. In the case of the Auction allocation system, we did also argue in chapter 5 that since successful bidders were automatically given import licences, the Auction eliminated another administrative, bureaucratic, time-consuming and subjective method used by the Ministry of Commerce and Industry to allocate import licences— which were a necessary condition for obtaining foreign exchange.

7.8.2 Inability to invest in long-term projects

In section 7.4.2 of this chapter we discussed the sample's inability to make investments in research and development, new products and/or new markets— save for a few companies such as Swarp Spinning Mills Limited, which we shall discuss in chapter 8. The most cited reason is what companies perceive as unaffordable credit terms from local banks, such as the 70 percent lending rates as of December 1992. Because of the other problems of foreign exchange shortages and low capacity utilisation rates coupled with ever rising levels of inflation (225 percent as of December 1992), most firms have at best been able to undertake minor rehabilitation of plant and machinery from their limited retained earnings.

The above situation has been exacerbated by the fact that there have been no real incentives from the government for companies to invest in

long-term projects, especially the urgent need to increase non-copper, non-traditional exports. We examine the incentives provided by the latest (1991) Investment Act to illustrate this point.

To qualify for the incentives provided under section 32 of the 1991 Act— such as exemption from payment of customs duties and sales tax on all machinery, equipment and spare parts— the Act says for example that the company must be an exporter of non-traditional products or services which result in net foreign exchange earnings. This automatically eliminates more than 90 percent of Zambia's manufacturing companies because— as we saw in table 7.3 and as we shall see in chapter 9— the sector is a net user of copper-generated foreign exchange. At 93 percent home-market orientation in our sample, there is no way the story could be otherwise. Another requirement is that the company must be an import-substitution one with a significant proportion of local raw material usage which results in net foreign exchange savings. First, the Act does not define what it considers to be a "significant proportion", so that this is subject to varying interpretation. Secondly, again companies do not make enough of their own foreign exchange to be able to enjoy net savings after deducting for machinery and raw material imports.

Yet another requirement is that the company concerned must be located in a rural area. Quite simply, nobody wants to invest there for various reasons, including the long distance from line-of-rail markets and poor to non-existent roads and other communication networks.

Given the above problems, given too the 9 major problems in table 7.6 and discussed in the sub-sections of 7.4, it is not surprising that most companies said they "simply take each day as it comes. We just sit and wait, because there really isn't much one can do in this mixture of uncertainties". The Acting General Manager of Tropics Foods Limited in Ndola— one of the private companies that declined to answer our questionnaire— lamented for instance that: "the new government is making far too many changes at once. They are trying to un-do everything that Kaunda did. At the end of the day most of us don't know what to do, so we simply sit and wait".

Our impression during the interviews was that there are many qualified indigenous managers in the sector, with the potential to improve its performance: if only the many structural bottle-necks discussed in chapters 5, 6 and 7 can be rectified. Some of these, such as the stop-go government policies and the high levels of inflation, have been beyond the control of the sector. In a nutshell, we have depicted a situation that is roughly akin to having many good drivers, but with many broken-down cars: no matter how good they are, they can never drive smoothly, even on the best of roads. As a matter of fact three of the non-responding companies from our original sample of 60 companies— see section 3.3.2 of chapter 3— failed to do so because we discovered they had gone out of business as a result of the rigidities we have outlined.

7.9 Chapter Conclusions

Our task in this chapter has been to attempt a first-hand account of the impact of Zambia's 1983-93 structural adjustment programme on the manufacturing sector, along sub-sector and ownership lines.

The adjustment programme was supposed to reduce import dependence and increase local raw material utilisation. Neither has happened. Import-dependence in volume terms has dropped marginally from 64 percent in 1981 to 60 percent in 1991, which may be insignificant given that average costs of imports may have gone up in real terms over the ten-year period due to devaluation of the Kwacha. We had no way of ascertaining this.

Three major features still characterise Zambia's manufacturing sector in the early 1990s much as was the case two decades ago: heavy import-dependence, lack of forex self-sufficiency, and minimal back-ward linkages with the rest of the economy. Coupled with SAP developments since 1983, it is not surprising that the 3CI+WIF syndrome has been identified here as a major hindrance to manufacturing recovery.

Import dependence in Zambia was inspired by mainly two related factors: the nature of the ISI strategy pursued after independence and the absence— through nature or, where present, through lack of exploitation— of local resources. What local inputs are found quite often tend to be very expensive, inferior, or both. Patel attests to this in box case 7.3. Gulhati (1989) rightly points out that given its general orientation to the domestic market and its heavy dependence on imported inputs and capital goods— both confirmed by this study— one could hardly expect manufacturing to grow during a period when the economy was facing a severe forex constraint.

The most crucial constraint of the sector— lack of forex for imported raw materials on which it is dependent— is also the most difficult to address. Average capacity utilisation rates in the manufacturing sector nose-dived from 65 percent in 1985 to 57 percent in 1990 and a low of 34 percent in 1991 as forex bottle-necks worsened. Forex difficulties frustrate not only procurement and export production, but also the planning of production and meeting contractual commitments on delivery dates. A vicious circle has therefore emerged: where imported raw-material-dependent firms suffer from forex shortages— limiting their capacity to import, starving them of raw materials and spare parts, thereby leading to low capacity utilisation rates which in turn stifle exports.

Real interest rates— inflation rates minus lending rates— are found to have been negative every year between 1981 and 1992. However in a country like Zambia with high and increasing levels of inflation, it is not necessary— according to Killick and Martin (1990: p21)— that interest rates should be positive, as this just contributes to more inflation. Measures to reduce inflation levels are more beneficial than those raising nominal interest rates.

The high levels of inflation are found to distort financial ratio analysis because— as Aragon (1982: p94) points out— high inflation levels do not have uniform and strictly proportional impacts on a firm's financial statements and consequently biases the results of ratio analysis. In our sample, ratio analysis is further complicated by the fact that some companies do re-value their assets, while others do not.

The manufacturing sector's liquidity problems— inability to pay short-term liabilities— is confirmed by the fact that average cash balances as a percentage of total current assets have been declining, from 13 percent in 1983 to only 5 percent in 1990. The least liquid current assets— inventory— by contrast has been rising as a percentage of current assets, from 54 percent in 1983 to 57 percent in 1990, that is more than half of all current assets. Accounts receivables have also risen from 32 percent in 1983 to 38 percent in 1990.

This chapter does not however address fully the enterprise level issues and lessons regarding the impact of the adjustment programme on individual manufacturing companies. That is why we have chosen to devote Chapter 8 to a discussion of these issues.

FOOTNOTES

1 Under the Kaunda Presidency, the Central Committee (of 25 members) was the highest policy-making body in the land. A member of the central committee was a much more powerful person than a cabinet minister. Under Chiluba, the central committee system has been abolished, cabinet ministers are the de-facto policy-making body.

2 The Zambezi river, home of the Kariba hydroelectric dam and the Victoria Falls where Zambia's electricity power plant is located, experienced low water levels. As of June 1992 the director of power distribution of the Zambia Electricity Supply Corporation, ZESCO, Mr John Wright was already warning businessmen that Zambian industries faced unavoidable close-downs unless they took the matter of power conservation seriously (Times Of Zambia, 30.5.92). By September 1992, water levels at the country's main Southern Province[7] reservoirs at Iteshi Teshi and Kariba Dams had fallen to 25 percent and 15 percent respectively of their storage capacity. Kafue Gorge, with an installed capacity of 900 megawatts, had fallen to 270mW, while Kariba had fallen to 250mW and Victoria Falls to 72 from 108mW. With normal domestic consumption at 800mW, this left a deficit of 210mW which was partly met by power imports from Zaire (The Scotsman, 9.9.92).

3 The acid test or quick ratio expresses the degree to which a company's current liabilities are covered by the most liquid assets. Generally any value of less than 1 to 1 (or 100%) implies reciprocal "dependency" on inventory to liquidate short-term debt.

4 The author did notice a new spirit of openness on the part of both local and foreign companies during the field trip to Zambia, attributable largely to the new democratic spirit prevailing in the country.

5 The EBZ (1990: p25) argues that with the liquidity difficulties companies have been experiencing, the duty drawback scheme does not give any relief to exporters as it necessarily means tying up working capital in paid— though reimbursable— duty. The creation of the scheme was well-intended, but its practical operation has been disappointing. The procedure in claiming refunds under the scheme appears unclear to most exporters. Moreover, claiming duty refunds is considered by most firms as a cost both financially and in terms of man hours lost as claimants enter into lengthy correspondence with the reimbursing authorities.

6 Our study defers to the home-market orientation figure of 89 percent given by the Export Board of Zambia (see EBZ 1990: p22). This is so because while our figure of 93 percent is based on a sample of 21 companies, that of the EBZ is based on a far larger sample of 119 companies.

7 The Southern Province, traditionally Zambia's main provider of maize, cotton, tobacco and beef cattle, has had its cereal and other crops wither on the stalk and its animal population decimated by the drought and drought-related diseases. Food, Agro-based and Textile manufacturing companies in Lusaka and Copperbelt Provinces that depend heavily on raw materials from the Southern Province told us they have thus been at the receiving end of the consequent chain-reaction. Some firms are responding to the water shortages by sinking their own boreholes at or near company premises. But it is the electricity power cuts due to **load-shedding** by ZESCO necessitated by the failure of voluntary conservation campaigns that has had an equally telling impact on manufacturing output. From 8 September 1992, domestic power was being switched off from 08.00 to 11.30 am and from 14:00 to 18:00 hours. Companies have had to work a 4-day week (News From Zambia, 1-16 Sep 1992) thereby increasing down-time and reducing production output.

CHAPTER 8 : A CLOSER LOOK AT THE IMPACT OF SAP ON BUSINESS STRATEGY : A 4-CASE EMPIRICAL STUDY

8.0 Chapter Objectives

This chapter, which deals with 4 cases, examines enterprise level experiences during 1983-93. Out of this should emerge further explanations as to how and why the structural adjustment programme has affected the manufacturing sector the way it has.

All 4 cases are part of the 43 companies that we interviewed during January to May 1992. The cases were selected in such a manner as to demonstrate different aspects of the 1983-93 SAP experience. Description and analysis of the 4 cases differs according to the nature and level of detail that interviewed managers in the respective companies were able and willing to provide.

8.1 CASE ONE : SWARP SPINNING MILLS LIMITED, NDOLA

8.1.1 History and nature of the Company

Situated in the city of Ndola on the Copperbelt, Swarp Spinning Mills Ltd (SSML) is a private, wholly-Zambian owned Textile firm established in 1981. The company's shareholders are Swarp Limited (55 percent), Development Bank of Zambia (10 percent), Ramknit Limited of Livingstone (12 percent), Partex Industries Limited of Livingstone (10 percent), HMR Distributors Limited of Lusaka (4 percent), Emsons Limited of Lusaka (2.5 percent), Phoenix Photographics Limited of Lusaka (2.5 percent), Weaving Industries of Zambia in Mufulira (2 percent), Mr P Ngoma of Ndola (1 percent), and Babnath Limited of Ndola (1 percent).

As of May 1992 the Board of Directors of SSML consisted of the following members: Mr R J Patel (Chairman)— Zambian of Asian origin; Mr M J Patel— Zambian of Asian origin; Mr K D Somaia— Indian (Businessman); Mr P D Somaia— British (Businessman); Mr J D K Mtumbi— Zambian (MD of Dev Bank of Zambia); and Mr P Ngoma— Zambian (Businessman).

Mr R J Patel is also the Managing Director, who is directly responsible for finance and export marketing. He is a graduate of the University of Surrey in the United Kingdom, where he studied mathematics and econometrics. He has over 21 years' managerial experience.

SSML was chosen for in-depth analysis because it is clearly a "star pupil" of the manufacturing sector. Despite having limited **experience curve effects** the firm has succeeded on most examined fronts, especially in the area of exports. The experience curve concept relates total costs per unit to the cumulative number of units produced (Hayes and Wheelwright 1984: p229). The concept generally argues that the longer a firm has been in its present business, then the more "experience" it ought to possess, over the years, to reduce costs with cumulative production. Conversely, a new entrant into the business is ordinarily thought to lack the "cumulative experience" to cut unit costs. A major usage of the concept is thought to lie in the area of enhancing corporate strategy, competitiveness and profitability.

The company commenced production in 1984. It manufactures cotton yarns, accounting for 95 percent of total output and exports. It also processes polyester, viscose and other assorted cotton blends. The cotton yarn is produced from locally grown cotton, consisting of between 90-99 percent of the company's total inputs. The 1-10 percent imported inputs include packaging material, dyes and chemicals, and polyester yarn. These are sourced from South Africa (packaging material), Switzerland and South Africa (dyes and chemicals), and Taiwan (polyester yarn).

8.1.2 **Company Strengths**

8.1.2.1 **Production:** the quality of the firm's products is high[1], meaning that the firm can and does compete favourably on the world market. Moreover, one of their foreign customers— Burnet Walker & Company[2] in the United Kingdom— attests to SSML's supply reliability (see appendix 8.1).

8.1.2.2 **Marketing, Sales and Exports:** cotton yarn is sold to weaving and knitting mills within Zambia, the PTA and Europe for such uses as the

manufacture of suits, shirts, bed linen, towels, socks and tarpaulins. The yarns are supplied in raw white, bleached and dyed forms as per customers' requirements. SSML currently concentrates on the use of 100 percent cotton lint— rather than synthetics— for blending, as this is locally available and of good quality. According to SSML management, another strategic advantage is the export market's preference for 100 percent cotton yarns. In fact over 90 percent of Zambia's textile exports consist of cotton yarn and grey cloth (EBZ 1991). Table 8.1 gives details of the export performance of Zambia's textiles sector.

Table 8.1 Export performance of the Textiles sector, 1988-1991 ($'000).

NAME OF COMPANY	1988	1989	1990	1991	EXPORT PRODUCTS
Swarp Spin Mills Ltd	1192	3457	4543	5529	Cotton Yarn
Kafue Textiles Ltd	3324	3383	2974	1879	Grey Fabric, Chitenge
Sakiza Spin Mills Ltd	268	379	210	150	Acrylic Yarn
Textile Pri Indus Ltd	80	150	170	-	Knitted Grey Fabric
Ndola Weav Text Ltd	33	78	51	-	Suiting Fabric
Deetex Limited	-	15	122	65	Knitted Grey Fabric
Ndola Knit Mills Ltd	40	-	288	-	" " "
J R Textiles Ltd	-	94	34	-	" " "
Towel Textiles Ltd	-	50	-	9	Towelling
Nkwazi Manuf Company	30	9	-	-	Twine
Copperbelt Weav Mills	-	6	-	-	Surgical Bandages
Mulungushi Text Ltd	1	1	43	-	Chitenge
Mukuba Textiles Ltd	-	-	-	1300	Cotton Yarn
Others	-	222	151	448	
Total	4968	7844	8586	9380	
Annual growth (%)	-	57.9	9.5	9.2	
SSML (%) of total	24%	44.1%	53%	59%	

SOURCE: compiled from EBZ (1991-92) and field-work statistics (1992).

SSML's policy and overall strategy in the export sector centres around: producing high quality yarn; offering competitive prices (SSML prices its products at the level ruling in the international market[3]— which it checks weekly from the Cotton Outlook Magazine); and supply reliability. Promotion of the firm's products is done mainly through direct contacts, advertisements in the Zambian press, as well as participation in local, regional and international trade shows.

The above strategy has been successful: SSML has since 1989 taken over as the largest foreign exchange earner in the textile industry. Table 8.1 shows that in 1988 the company accounted for 24 percent of total textile exports. This rose to 59 percent in 1991. It currently exports about 60-

65 percent of its total output. Of the export sales, only 5.9 percent currently go to the PTA (Botswana) while 94.1 percent go to Europe (mostly the United Kingdom, Italy and Switzerland). Another strength is that SSML is the second least import dependent firm in our entire sample, as reported in appendix 7.2 of chapter 7. The firm only imports between 1-10 percent of its raw materials, as such forex shortages for importation of raw materials is not a problem. It will be re-called from chapter 7 that SSML is the only firm that gave forex shortages a ranking of 9, when for the rest of the companies it is the number one problem.

Table 8.2 Swarp Spinning Mills Ltd: Performance for selected years

	1984	1985	1986	1987	1988	1989	1990	1991
TOTAL EMPLOYEES	200	250	450	450	450	725	666	630
TOTAL PROD (000 kgs)	129	820	1007	1420	1666	3422	3414	3642
CAPACITY UTIL' (%)			95	96	96	95.1	95.0	95.1
LOCAL SALES (000 kgs)	129	814	969	690	1185	1899	1584	1345
EXPORTS (000 kgs)	0	6.5	38	730	481	1523	1830	2298
EXPORTS, % OF OUTPUT		0.1	3.8	51.4	28.9	44.5	53.6	63.0
SALES GROWTH (%)		683	66.5	106	78.7	211.3	135.6	45.7
LOCAL SALES (000 K)	1804	14086	22443	33161	75253	172119	245392	309167
EXPORTS (000 $)		22	90	1832	1192	3330	4543	5529
% GROWTH, EXPORTS			319	1936	35.0	179.4	36.4	21.7
FOREX UTIL (000 $)			90	1832	1192	3330	4543	3000
IMPORTS (000 $)	4500	1800	2250	1175	7559	2590	2250	2875
OF WHICH:								
MACHINERY (000 $)	4000	1000	1500	0	6500	1500	750	125
OTHER IMPORT (000 $)	500	800	750	1175	1059	1090	1500	2750
NET PROFITS (000 K)				6625	20279	48839	140269	208869
RETURN ON SALES (%)				14.0	23.0	20.0	25.4	25.6

Export market diversification has occurred every year since 1984 as the UK (1986), Italy (1987), Switzerland (1988) and Botswana (1990) have been successfully penetrated. According to the Export Board of Zambia (EBZ, 1991), SSML now ranks among the top 5 non-traditional exporters in Zambia and that it has one of the best performance and efficiency records in the country's manufacturing sector— despite being in production for only 8 years. Table 8.2 shows that exports have risen from a low of $90,000 in 1986 to a 1991 high of $5.5 million, an increase of fivefold. Exports for 1992 are estimated at $6 million. The decline in export growth from 179.4 percent in 1989 to an estimated 8.5 percent in 1992 is a reflection of the fact that SSML is already producing near full capacity, averaging between 90-97 percent capacity utilisation in the last 4 years.

How has the 1983-93 SAP affected exports?: SSML indicated that the major reason for entering the foreign market in 1985 was the desire to take advantage of the 50 percent foreign exchange retention incentive introduced by the government as part of SAP.

Management claimed that the Foreign Exchange Management Committee (FEMAC) system of forex allocation— when the forex auction was abandoned (1987) and the Kwacha was fixed at K8 = $1 and a committee screened applications and made the forex allocations— was counter-productive for exports as the Kwacha was over-valued, and firms were not allowed to retain export proceeds in local forex accounts. SSML is therefore pleased with the market exchange rate (MER) system now in operation through the newly-introduced 100 percent forex retention scheme, in operation since early in 1992. The company will use all the forex earned for their own needs.
In the same vein, SSML is pleased with government's trade liberalisation initiatives under the 1992-94 SAP because the company believes it has the resources (human and capital) to compete both locally and globally, unencumbered by any government price and trade controls.

8.1.2.3 **Finance and Accounting:** as table 8.2 shows, the company enjoys a healthy financial position, with return on sales (net profit margin) rising from 14 percent in 1987 to 25.6 percent in 1991. This is higher than the 14 percent average return on sales for the whole sample as calculated in chapter 7. The selected performance indicators in the table reveal, inter alia, a steadily rising trend in total sales and profitability. The company's sales of K234 million in 1989 and K552 million in 1990 were larger than the private sector average of K89 million in 1989 and K106 million in 1990. Its net profits of K49 million in 1989 and K140 million in 1990 were also higher than the average for either parastatals, multinational companies, of private firms, given in table 7.9 of chapter 7.

The good performance is mainly attributed to the availability of local raw materials, efficiency of machinery, competent management and the existence of ready local and export markets. These factors, the firm believes, will continue to play the leading role in its future performance.

8.1.2.4 **Management:** a major asset of the firm lies in the quality of its management. Led by Mr R J Patel, the management team is described by both the EBZ in Lusaka and Burnet Walker in Glasgow as very good.

8.1.3 **Company Opportunities**

8.1.3.1 **Production:** SSML has embarked on a large plant and capacity expansion programme which will witness the introduction— for the first time on a large scale in Zambia— of combed cotton yarns. Divided into two phases (B1 and B2), the programme will increase production capacity by 3200 metric tones during phase B1 (underway as of 1992) and a further 9000 metric tones during phase B2. This attests to SSML's determination to be a market leader in the Zambian textile industry.

The total project cost as of early 1992 was K2.6 billion broken down as follows:

Table 8.3: Break-down of SSML'S Expansion Expenditures.

	Local Costs (K'000)	Foreign Cost equivalents (K' 000)	Total
Buildings	106700	98148	204848
Plant and Machinery	18550	2040463	2059013
Pre-production costs	194477	-	194477
Working Capital	149988	-	149988
Total	469715	2138611	2608326

The foreign exchange component of K2.1 billion is to be met as follows: loan from Development Bank of Zambia (K515 million); loans from other financing agencies such as the EC and the PTA Bank in Bujumbura, Burundi (K830 million); funds from SSML's retained earnings— export retentions—(K194 million); while the K470 million in local costs will come from retained earnings (K415 million) and a bank overdraft of K55 million. The Kaunda government did recognise SSML's export potential and, at the start of the forex auctioning period in 1985 accorded the firm priority status for a period of five years. SSML was exempted from payment of duty and sales tax on machinery, income tax and selective employment tax. The company hopes that the MMD government will extend this privilege during phases B1 and B2 of its current expansion programme.

8.1.3.2 **Exports:** Burnet Walker (see appendix 8.1) have confirmed their readiness to not only increase orders of SSML cotton yarns from 120 to 240 tones per month, but also to commence orders of combed yarns and poly-cotton yarns. SSML therefore has a useful opportunity to expand exports, a task that should be made easier by current excellent relationships with customers[4]. Enquiries have also been received from other European and North American countries for combed cotton yarns, carded cotton yarn, as well as blended polyester/cotton yarns.

SSML also sees trade liberalisation as a good chance for them to buy raw materials from and sell their products to South Africa, although currently they complain of very high import tariffs there. They view open trade with RSA as a challenge and an opportunity, rather than a threat.

8.1.3.3 **Linkages:** SSML has strong backward linkages to the local agricultural sector, from where it currently sources 90-95 percent of all its cotton lint inputs— totalling around 3960 metric tones per year. Currently, the firm sources cotton lint from the Lint Company of Zambia Limited (LINTCO), the main cotton lint marketing institution in the country. When completed, the expansion programme will further strengthen these linkages as SSML will require an additional 3900 metric tones of local cotton.

8.1.3.4 **Employment generation:** the expansion programme raises the opportunity for an additional 428 permanent employees, bringing the total to 1,058. According to the Managing Director, SSML does not envisage any problems in recruiting the additional skills as they are available in abundance on the Copperbelt.

8.1.4 **Company Threats**

8.1.4.1 **Drought-related threats:** its strong backward linkages to local cotton production means that SSML is vulnerable to rainfall and general weather swings. More than half of Zambia's cotton is grown in Southern Province and the Mumbwa corridor of Lusaka Province, by far the worst drought areas as discussed in chapter 7. The company confirmed fears about the impact of the 1992 drought, although to what extent this would affect production was difficult to estimate.

8.1.4.2 **Inflation-related project cost-overruns:** both the drought and the general inflationary trend in the economy (225 percent) mean that **cost overruns** above the K2.6 billion cost of expansion phases B1 and B2 are inevitable. The firm will therefore have to negotiate for further loan finance which, as already argued in chapter 7, is quite expensive due to liberalised interest and exchange rates.

8.1.4.3 **Exports:** although the quality of SSML's products is reportedly high, concerns have been raised about their packaging and presentation, both of which have sometimes not been up to required international standard. Also, the company's 30-day credit terms to foreign buyers such as Burnet Walker, when the industry norm is 90 days, represents a potential threat in the form of lost market share to competitors who offer better credit terms.

8.1.4.4 **Tariffs and "brief-case" imports:** the company was asked to illustrate how costs of production and/or marketing efforts had been affected by tariffs charged by the government. Two themes emerged: the cascade effects of tariffs and the impact of "brief-case" imports under trade liberalisation where, in the latter case, no tariffs are paid by people bringing in small quantities of competing final products.

SSML pays 30 percent tariffs on its imported dyes and chemicals. In an attempt to charge economic prices to local buyers of their products, this makes local firms' own final products more expensive than imported finished substitutes. This is so because these local firms have other taxes (such as on sales and income) to pay over and above those paid indirectly through purchases from SSML. On the other hand, trade liberalisation has seen traders (and brief-case importers) bring into the country cheaper competing products for which— according to SSML management and this author's own knowledge[5]— duty is often evaded when customs officers are told the value of the goods in question is zero and they (traders) pay nothing.

8.2 CASE TWO : COLGATE-PALMOLIVE, ZAMBIA LIMITED, NDOLA

8.2.1 History and nature of the Company

Established in Ndola in 1967, this health-care multinational corporation (MNC)— a subsidiary of Colgate-Palmolive International of the USA— was chosen in order to examine whether MNCs in Zambia have faced any unique challenges and opportunities during the SAP period different from those of local firms.

The company has five main product lines: Oral care, Body care, Fabricare, House-hold care, and others. In all, a product-line depth of fourteen different products makes up the five main lines. Each product line involves some twelve to thirteen ingredients. The firm sources 26 percent of its raw materials locally. 74 percent of the raw materials are imported because, as the Manufacturing Director indicated during my field-work, a subsidiary like Colgate Zambia has to meet international product standards set at headquarters in New York. These standards, he said, also have to meet U.S Federal Drug Administration (FDA) standards. Even for products such as Cold-Power and Dynamo-Paste which use local ingredients (such as silicate from Nitrogen Chemicals of Zambia Limited, and Lybide calcite from Chisokone Chemicals of Ndola), these have to be tested at research laboratories in the USA before approval is granted. Because of this global strategy of standardising raw material and product quality, he indicated, imports will continue almost forever. Even if Zambia could produce the major ingredients (such as viscream and soldium fluoride), for the plant to be economical it would have to produce in the region of 100,000 tones annually and supply world-wide to remain profitable.

What has the 1983-93 SAP meant for Colgate-Palmolive (Z) Ltd?: the Director of Manufacturing was asked to explain ways in which the 1983-93 SAP has been beneficial and/or detrimental to the operations of the company. The interview yielded the following findings:

(a) **Forex allocations:** asked as to which one of the four main forex allocation methods (BOZ allocations; the 1985-87 forex auctioning; the foreign exchange management committee [FEMAC] allocations and the

current market exchange rate, MER or retention allocations) was the most beneficial, the auction emerged as the most favourable of the first 3. The MER or retention rate is, however, the best of the 4. Because of the general forex scarcity, both the BOZ and FEMAC allocations were disliked as allegedly prone to manipulation and bias, while under the auction and MER the major consideration has been whether the company has the Kwacha-cover to pay for the high price of forex. Under the BOZ allocations still in operation as of 1984, for instance, the plant was shut for 4 months due to lack of forex to import raw materials, with all employees sent on forced leave. It has not happened since.

(b) **Dividend and royalty remittances:** inability to remit royalty payments and dividends under state-managed forex allocations systems (BOZ and FEMAC) has, according to the company, been its most critical problem. Colgate Zambia Limited is the only firm in chapter 7 that gave inability to remit dividends the highest ranking of 1. Both the auction and MER systems have been beneficial in this regard. The firm has been able to increase dividend and royalty remittances from zero in 1981, $121,000 in 1987, to $590,000 in 1991 and an estimated $906,000 in 1992.

(c) **The South African factor:** the firm views trade liberalisation as an opportunity, believing the quality of its products has withstood and will continue to withstand competition. Specifically, open trade with South Africa is seen as an opportunity to coordinate regional production and market segmentation with Colgate South Africa. In countries where Colgate Palmolive has no subsidiaries, production and marketing from plants in Zimbabwe, South Africa and Zambia can be coordinated in such a way as to ensure some degree of specialisation and therefore reduce unnecessary intra-Colgate competition.

The example given was that Zambia can supply dynamo washing powder (which South Africa does not produce) to Malawi, while Colgate South Africa can supply other products.

In his profile of Dunlop Zambia—another multinational in Zambia— Tony Hawkins (see Financial Times, 17 December 1992) reports that due to trade liberalisation the firm has pledged to "change the marketing mindset" from that of the previous era when marketing used to mean rationing

supplies to desperate buyers. Dunlop Zambia, like Colgate Zambia, is planning to send its sales staff to work with Dunlop Nigeria to learn how to market in a competitive environment. The Managing Director, Mr Bob May, in admitting that employing expatriates in Zambia is "savagely expensive", believes that one way out of the problem is to use local staff by networking within the region, "sharing skills with the larger, more modern factory at Bulawayo in neighbouring Zimbabwe".

Another advantage is the opportunity for Colgate Zambia to source raw materials more cheaply from South Africa where they are available and comparable in quality to any that are produced in developed countries. It will now cut lead-time from the one month it has taken hitherto to order and get supplies from overseas to just four to five days when these are sourced from South Africa and transported by road.

(d) **Policy instability:** the company cited as a negative development of the SAP-period its inability to "plan beyond next week" or do any strategic planning because of constantly changing government economic policies. Echoing the sentiments of other companies interviewed on the subject, the Manufacturing Director cited also the undue advantage enjoyed by traders over manufacturers in the area of tariffs. He complained that the Zambian tax structure did not discriminate between people who imported finished soap, for example, and companies like Colgate-Palmolive which manufactured them locally. Because local producers face a cascade of tariffs ranging from duty on vital raw material imports to sales tax on finished manufactured goods— as the Monarch Zambia case later in this chapter will illustrate— they claim that their products end up being more expensive than imports.

8.2.2 Company Strengths

8.2.2.1 **Competition:** as already inferred, Colgate-Palmolive (Z) Ltd enjoys a dominant position in the 5 main product lines on the Zambian market, which accounts for more than 95 percent of its sales territory and revenue. Export sales commenced, albeit slowly, during the adjustment period, with Kenya and Tanzania markets penetrated in 1990. The liberal

forex system has eased forex bottlenecks for the firm, consequently boosting production levels from a low of 5,264 metric tones in 1981 to 9,847 metric tones in 1991 and an estimated 10,135 metric tones in 1992, increases of 87 percent and 92.5 percent respectively over the 1981 figure. Table 8.4 provides more performance statistics. Sales revenues have increased steadily from 67.9 percent of the previous year in 1985 to 143.5 percent in 1991. Appendices 8.2 and 8.3 give a break-down of both production and sales levels by product line for the 12-year period 1981 to the budgeted figure for 1992.

Table 8.4 Colgate Palmolive (Z) Ltd: Selected performance indicators, 1981-1992B (K'000)

	1981	1982	1983	1985	1986	1987	1989	1990	1991	1992B
Total Employees			118		132	141	152	173		
Production[6] (met tones)	5264	5603	4432	4980	4482	4285	7181	8328	9847	10135
Net Sales[7]	12058	13805	15773	33606	58063	91813	247024	547589	1333234	2225845[9]
Sales Growth (%)	-	14.5	14.3	67.9	72.8	58.1	94.5	121.7	143.5	67.0
Cost of Goods Sold[8]	10305	12192	11458	21579	37807	59520	137226	303505	808144	1518080
% Increase in COGS	-	18.3	-6.0	47.5	75.2	57.4	64.3	121.2	166.3	87.8
Total Taxes Paid	725	387	1387	5381	5655	9345	50157	85621	227802	305310
Net Profit	1028	1226	2928	6646	14601	22948	59641	158463	297288	402455
Estim Inflation (%)	18.1	13.9	21.0	47.1	40.0	50.0	70.0	80.0	120.0	225
Net Working Capital	2176	1045	3634	10067	10668	21285	73037	150564	266845	396742
Accounts Receiv (Net)	139	258	208	398	326	-120	9978	59246	155345	78706
Inventory (Net)	2841	1214	4543	11353	21190	42367	134709	214078	490504	647432
Accounts Payable	670	520	2447	6709	3116	7254	14758	4169	31830	84555
Net Remit ($'000):										
Dividends	0	680	225	0	239	52	48	217	201	330
Royalties	0	1440	576	0	441	69	142	347	389	476
Total Remittances	0	2120	801	0	680	121	190	564	590	806

Appendix 8.3 reveals that Bodycare and Fabricare product lines constitute the **"cash-cows"** of the company: between them, they have accounted for 74.52 percent of all sales every year during the 12-year period under consideration. To give the reader an idea of how big and powerful Colgate Zambia is, consider that its estimated sales of K2.2 billion for 1992 was the equivalent of 15 percent of Zambia's military budget of K15 billion for 1992.

Colgate Palmolive (Zambia) is one of the most visible companies on the Zambian market, spending heavily on publicity and community-based social projects and marketing research. It sponsors anything from golf tournaments to athletics. Appendix 8.4 shows that total expenditures on

selling, product management, market research, media, promotion and other advertising have risen from 15 percent of cost of goods sold in 1981 to 18 percent in 1992.

Table 8.5 Colgate Palmolive (Z) Ltd: Selected Financial Ratios, 1981-1992B

	1981	1982	1983	1985	1986	1987	1988	1989	1990	1991	1992B
PROFITABILITY RATIOS:											
1 Return on Sales(%)	8.5	8.9	18.6	19.8	25.2	25.0	21.6	24.1	29.0	22.3	18.1
2 Total Asset Turnover(T)	2.6	2.7	1.4	1.2	1.6	1.4	1.2	1.3	1.4	1.6	2.1
3 Return on Assets(%)	22.4	23.6	26.5	24.6	40.9	33.7	26.4	31.1	41.7	35.8	37.7
4 Sales to Fixed Assets(T)	7.3	6.9	6.7	9.4	4.7	4.4	5.5	8.1	6.6	6.9	8.0
5 Gross Profit Margin(%)	14.5	11.7	27.4	35.8	34.9	35.2	34.2	44.4	44.6	39.4	31.8
7 Net Income to Networth(%)	39.8	45.6	63.1	64.0	69.4	61.0	44.8	56.7	70.0	67.7	62.1
LIQUIDITY RATIOS:											
1 Working Capital(K'000)	2176	1045	3634	10067	10668	21285	29000	73037	150564	266845	396742
2 Current Ratio(T)	2.2	1.5	1.6	1.7	1.7	1.8	1.7	1.9	2.0	1.7	2.0
3 Quick Ratio(%)	64.2	91.8	83.7	1.0	17.0	22.5	1.5	26.8	57.8	19.1	36.0
4 Sales to Working Capital(T)	5.5	8.5	6.7	4.5	5.6	5.7	5.1	4.8	4.9	6.4	6.7
TURNOVER RATIOS:											
1 Accts Receiv. Turnover(T)	86.7	53.5	75.8	84.4	178.1	-765	26.4	24.8	9.2	8.6	28.3
2 Avge Collec, Recei (Days)	4.2	6.8	4.8	4.3	2.1	-0.5	13.8	14.7	39.7	42.4	12.9
3 Inventory Turnover(T)	4.2	6.8	5.5	4.2	3.4	2.8	2.3	2.4	3.2	3.4	3.6
4 Day's Inventory (Days)	86.9	53.7	66.4	86.9	107.4	130	159	152	114	107	101
DEBT RATIOS:											
1 Debt Ratio(%)	40.0	40.0	51	53	40.0	40	40	44.0	40	46	37
2 Debt to Equity Ratio(%)	72.0	77.0	121	137	68.0	72	68	80.0	66	87	60
3 Fixed Assets to Worth(%)	64.0	75.0	51	35	58.0	55	38	29.0	37	44	43
OTHER MEASURES:											
1 Total Unit Costs	2.0	2.2	2.6	4.3	8.4	14	13	19.1	36	82	150
2 Unit Production Costs	1.8	2.1	2.4	4.0	7.7	13	12	17.9	34	78	137

KEY: B = BUDGETED, HSS = HOUSE-HOLD

8.2.2.2 Finance and Accounting

(a) **Profitability:** the company's profit position has been quite sound. Selected ratios to confirm this are:

(i) Return on sales: has risen from 8.5 percent in 1981 to 29 percent in 1990 and an estimated drop to 18.1 percent in 1992, but still higher than during the pre-SAP years.

(ii) Return on investment: has risen from 22.4 percent in 1981 to 41.7 percent in 1990 and an estimated 37.7 percent in 1992. The firm has therefore consistently been able to reward those who provide funds and to attract providers of future funds.

(b) **Asset utilisation:** the trend in both inventory turnover and day's inventory has been more or less constant— and good— as shown in table 8.5. Inventory turnover was 4.2 times in 1981, falling only slightly to 3.6 times in 1992. The average length of time units have been in inventory worsened slightly from 87 days in 1981 to 102 days in 1992.

(c) **Debt—Equity position:** two debt ratios in table 8.5 confirm the absence of any threat of bankruptcy. The debt ratio shows that on average less than 36 percent of the firm's assets have been financed by creditors who, therefore, are well protected by the 64 percent in equity and assets in case of insolvency. The fixed assets to net-worth ratio, which measures the extent to which owners' equity (networth) has been invested in plant and equipment (fixed assets) indicates a proportionately smaller investment in fixed assets in relation to net worth, as percentages have fallen from a high of 64 percent in 1981 and 75 percent in 1982 to a low of 44 percent in 1991 and 43 percent in 1992. Again, this indicates a better "cushion" for creditors in case of liquidation.

8.2.3 **Company Threats:** certain threats do exist, however, with regard to the way the company is being run. Chief amongst them are the following:

8.2.3.1 **Production:** table 8.5 identifies production inefficiencies, which call for closer monitoring and control. Despite the increase in production levels, there are dis-economies of scale identified by the rising unit production costs from K1.8 per unit in 1981 to K78 per unit in 1991 and K137 per unit in 1992, which are all above respective increases in the rates of inflation for all the years.

8.2.3.2 **Liquidity difficulties:** in chapter 7 we observed that the bulk of our sample's current assets are tied up in both receivables and inventory. Colgate Zambia is no exception. Appendices 7.7 and 8.5 show that cash as a percentage of total current assets has declined in the firm from 16 percent in 1983 to zero in 1990 to 1992. The least liquid asset— inventory— has accounted for over 80 percent of current assets during the entire period. This poor liquidity situation is also confirmed by the

quick ratio in table 8.5. It has declined from 84 percent in 1983 to 19 percent in 1991. All this indicates too much dependency by the company on inventory to liquidate short-term debt.

8.2.3.3 **Management of accounts receivables:** this too calls for improvement, as indicated by the declining trend in the average collection of receivables. The average time in days that receivables are outstanding is increasing (and therefore worsening) from 4.2 days in 1981 (under a week) to 42.4 days in 1991 (over a month). This raises the chance of delinquencies in accounts receivable.

In appendix 8.5 we present other selected balance sheet indicators of Colgate Zambia's overall performance.

8.3 CASE THREE : COPPERBELT BOTTLING COMPANY LTD, KITWE

8.3.1 History and nature of the Company

A soft-drink manufacturer, this Kitwe-based subsidiary of the multinational company Lonrho Zambia Limited has a Coca Cola Franchise. The firm was chosen because it exemplifies the dilemma when such an arrangement is faced with successful import-substitution. The firm was established in 1950.

The company's principal products are Coca Cola Products (New Coke, Sprite, Fanta, Tingling, Soda Water, Tonic Water); Tip-Top Products (Orange, Pineapple, Lemon, Guava, and Mango tip-tops); COBO Concentrates (Orange, Pineapple, and Lemon); and Cobo Fruit Wine.

8.3.2 Company Strengths

The Kaunda government in 1986 banned the importation of Coca Cola Concentrates, the official reason given being to promote local soft drinks— the infant industry argument. The ban was lifted in 1987 when Coca Cola International— who manage the Zambian franchise from their London office— apparently agreed to work hand in hand with local firms to improve the quality of local drinks.

8.3.2.1 **Production:** import-substitution inspired by the government's 1986 ban on the importation of Coca Cola concentrates has led to successful diversification into Tip-Top soft drinks. An advantage of this

related-diversification into other soft drinks is that:

(a) The Tip-Top products and Cobo concentrates use 100 percent locally-sourced raw materials— fresh fruits from Luapula Province, North Western Province, and other areas within Zambia. Strong backward linkages therefore exist with the agricultural sector, from where it sources 100 percent of all fruit requirements. The Tip-Top formula is reported to have been developed by the Zambia National Council for Scientific Research, to which the company pays royalties— the value of which we were not told.

Table 8.6 Copperbelt Bottling Company: Break-down of soft-drink sales revenue by product line category, selected years ['000 K]

	TOTAL	TIP-TOP PRODUCTS	COCA-COLA PRODUCTS	TOTAL
(a) 1986 =	K33,725	0.7%	99.3%	100%
(b) 1987 =	K53,251	13.4%	86.6%	100%
(c) 1990 =	K215,899	54.7%	45.3%	100%

(b) As table 8.6 shows, Tip-Top drinks have enjoyed tremendous popularity in the country since their introduction in 1986. It is this popularity which has invited the current conflict with Coca Cola International. Table 8.6 shows that of the K33.7 million in sales revenue the firm made in 1986, K236,075 (or 0.7 percent) only was attributable to Tip-Top products, while K33.5 million (99.3 percent) came from Coca Cola products. When the ban was lifted in 1987, the total sales revenue rose to K53.3 million, with the corresponding shares being K7 million (13.4 percent) for Tip-Top and K46 million (86.6 percent) for Coca Cola. By 1990, total sales revenue had risen to K216 million.

Table 8.7 Copperbelt Bottling Company: Popularity of individual soft-drinks, ranking based on total sales turnover attributable to each product for the 3 years 1989 to 1991.

1 = Coke, 2 = Pineapple tip-top, 3 = Orange tip-top, 4 = Mango tip-top, 5 = Guava tip-top, 6 = Lemon tip-top, 7 = Fanta, 8 = Ginger Ale, 9 = Tonic Water, 10 = Soda Water, 11 = Ting-Ling, 12 = Sprite.

NOTE: Coca Cola products are in positions 1, 7 and 12 in the above individual rankings, with the rest belonging to the Tip-Top category.

Interviews with the General Manager and the Financial Accountant in April 1992 revealed that as of February 1992 sales were moving at 95 percent in favour of the Tip-Top soft drinks, meaning Coca Cola products

only accounted for five percent of total sales. Further confirmation of this comes from table 8.7, which shows the ranking of the 12 individual products in terms of turnover for the 3-year period 1989-1991. Although Coke still leads other individual products, the Tip-Top group has the superior overall ranking.

8.3.2.2 **Capacity utilisation rates:** in the period prior to and including 1983, capacity utilisation rates averaged a good 75 percent for the following reasons:

(a) Importation of Coke concentrates was easy as BOZ approved most of the firm's applications for forex on time.

(b) Even when payment was delayed, deliveries of coke concentrates from the U.S were regular as the firm's credit rating was good and because at that time Coca Cola products had no local competition.

When the structural adjustment programme was launched in 1983 amid a general forex crisis in the country, everything changed. Approvals for forex from BOZ became erratic, consequently causing erratic supplies of coke concentrates. This affected production, with capacity utilisation falling to 32 percent in 1985 at the start of the forex auction. As the country's forex crisis deepened, the government banned the importation of all luxury goods. Coke concentrates were banned in 1986 despite protestations from both the company and the concentrate suppliers. Capacity utilisation rates reached an all-time low of 28 percent in 1986.

Since the introduction of Tip-Top products and the subsequent un-banning of concentrate imports in 1987, capacity utilisation rates have inched upwards again to around 50 percent affected only by a new problem: erratic and insufficient water supplies from Kitwe District Council. The company has sunk its own bore-holes to try and remedy the water problem. Other major new investments (see increasing new investment expenditures in table 8.8) include the pulping and juice plant for Tip-Top products. The project, which opened in 1991, cost a total of K100 million, funded from both the firm's retained earnings and contributions from Lonrho Zambia's head office in Lusaka.

Table 8.8 Copperbelt Bottling Company: Balance Sheet performance indicators for selected Years (K'000)

	1983	1984	1986	1987	1989	1990
Total Employees	455	433	407	386	363	393
Net Sales	18457	21508	33725	53251	90805	215899
Cost of Goods sold	13701	15313	22567	33052	38010	93271
Gross Profit	4756	6195	11158	20199	52795	122628
Total taxes paid	3269	4644	8386	10313	11482	57339
Net Profit	1487	1551	2772	9886	41313	65289
Total Current Assets:	5053	6610	20709	32229	104819	167369
Of which:						
Cash	656	147	475	240	4101	11642
Accts Receivables	1397	1402	3259	4067	32409	65736
Ending Inventories:	2610	3145	10764	12361	63416	89413
Other current Assets	390	1916	6211	15561	4893	578
Total Net Fixed Assets	4013	4355	5394	5293	11646	82622
Total Company Assets	9066	10965	26103	37522	116465	249991
New investment in year	1075	342	1265	-	3447	70976
Current Liabilities:	3238	3987	14162	17252	51896	120323
Total Retained Earnings	4947	6099	6041	11970	40619	68168
Total Owners' Equity	5828	6979	11941	20270	64569	129668
Liabilities and Equity	9066	10966	26103	37522	116465	249991

Table 8.9 Copperbelt Bottling Co: Financial Ratios for selected Years

	1983	1984	1986	1987	1989	1990
PROFITABILITY RATIOS:						
1 Return on Sales(%)	8.1	7.2	8.2	18.6	45.5	30.2
2 Total Asset Turnover(T)	2.04	1.96	1.29	1.42	0.78	0.86
3 Return on Assets(%)	16.4	14.2	10.6	26.4	35.5	26.1
4 Sales to Fixed Assets(T)	4.6	4.9	6.3	10.1	7.8	2.6
5 Gross Profit Margin(%)	25.8	28.8	33.1	37.9	41.9	56.8
7 Net Income to Networth(%)	25.0	22.0	23.0	49.0	64.0	50.0
LIQUIDITY RATIOS:						
1 Working Capital(K'000)	1815	2624	6547	14977	52923	47046
2 Current Ratio(T)	1.6	1.7	1.5	1.9	2.0	1.4
3 Quick Ratio(%)	27.0	31.6	38.1	53.0	35.6	31.2
4 Sales to Working Capital(T)	14.1	11.0	7.4	5.0	2.7	4.3
TURNOVER RATIOS:						
1 Accts Receiv. Turnover(T)	13.2	15.3	10.4	13.1	2.8	3.3
2 Avge Collect Receiv (Days)	27.6	23.8	35.3	27.9	130.4	111.3
3 Inventory Turnover(T)	7.1	6.8	3.1	4.3	1.4	2.4
4 Day's Inventory (Days)	51.6	53.4	116.6	84.7	255.3	151.5
DEBT RATIOS:						
1 Debt Ratio(%)	35.7	36.5	54.2	37.0	44.2	48.1
2 Debt to Equity Ratio(%)	55.6	57.1	118.6	68.4	79.8	92.8
3 Fixed Assets to Worth(%)	69.0	62.0	45.0	26.0	18.0	64.0

8.3.2.3 **Competition:** Copperbelt Bottling Company is the dominant supplier of soft drinks on the Zambian market. Schweppes Zambia Ltd— situated in Kitwe— and Zambia Bottlers Ltd of Lusaka are the two main competitors. Other smaller ones include Tropics (Z) Ltd of Ndola. We were not able to get a break-down of soft-drink market shares.

8.3.2.4 **Finance and Accounting**

(a) **Profitability:** the company enjoys a healthy financial position. In table 8.8 net profits have risen from 79 percent of the previous year in 1986 to 257 percent in 1987; 318 percent in 1989 and 58 percent in 1990. Except for 1990, all increases have been well above the inflation rate for those years, estimated at 40 percent in 1986, 50 percent in 1987, 70 percent in 1989 and 80 percent in 1990. The profit of K2.8 million in 1986— despite the abrupt import-ban on coke concentrates— reflects the dominance of the firm in the market. Vital ratios in table 8.9 which confirm profitable operations include:

(i) Return on sales: has risen from 7.2 percent in 1984 to a high of 46 percent in 1989 and 30 percent in 1990. The firm has generated increasing net income Kwachas from each Kwacha of sale in these years. Sales would have risen much higher in 1990, but for erratic water supplies.

(ii) Return on assets or return on investment: has risen from a low of 11 percent in 1986 to 36 percent in 1989 and 26 percent in 1990. Copperbelt Bottling Company has enjoyed a consistent ability to reward those who provide funds and to attract providers of future funds.

(iii) Net income to net worth: this has been rising consistently during the years in question, from 23 percent in 1986 to 64 percent in 1989 and 50 percent in 1990.

(b) **Liquidity:** several liquidity ratios in tables 8.9 and 8.10 confirm the firm's ability to pay current liabilities as they come due within one year. In other words, they confirm that the firm is solvent.

(i) Net working capital: the firm's residue of current assets over current liabilities has been rising steadily over the years. This is confirmed also by the fact that current assets have on average been 1.6 times current liabilities as measured by the current ratio. Solvency is also confirmed by the positive ratio of cash to net working capital: 36.1, 5.6, 7.2, 1.6, 7.7 and 24.7 percent respectively for the given years.

(ii) Has the net working capital "buffer" increased "enough" relative to the increases in current liabilities? From table 8.10 the answer is yes— except for 1986 and 1990 for reasons already cited.

Table 8.10: Copperbelt Bottling Company: comparison of percentage increases in current liabilities with percentage increases in net working capital for selected years.

	1984	1986	1987	1989	1990
Percentage increase in current liabilities:	23	255	22	200	132
Percentage increase in net working capital:	45	150	129	253	-12

8.3.2.4.3 **Debt—Equity position:** the firm's debt position from the 3 debt ratios in table 8.9 again confirms that it is not courting foreseeable bankruptcy. Comparing the firm's total liabilities with its total assets (the debt ratio) indicates that on average less than 43 percent of the firm's assets have been financed by creditors or outsiders. Creditors are therefore quite well protected in case of insolvency.

8.3.3 **Company Opportunities**

8.3.3.1 **Production:** if operating currently at around 50 percent of capacity (that is there is 50 percent excess capacity) earns the firm K65.3 million in profits as of 1990, then raising capacity utilisation— and in the process hopefully lowering unit production costs through economies of scale[10]— has the potential to raise profits substantially. To what level this can be done is a function of many factors, among the most significant are the following:

(a) Keeping percentage increases in expenses less than the increases in net sales. In 1989 the firm's net sales increased by 71 percent while costs of goods sold only rose by 15 percent over the previous year.
(b) The extent to which trade liberalisation will increase competition from imported drinks and how this will affect the firm's market share through alterations in both production levels and local prices, (c) The extent to which the poor state of the Zambian economy will continue to erode the disposable incomes of Zambians, (d) Whether the firm can penetrate new markets with its tip-top products, and finally (e) The extent to which the water-supply system can be relied upon.

8.3.3.2 **Wait-rider syndrome in exporting:** the firm does not currently export any of its products. Asked as to why the popular tip-top products have not yet been launched at least in SADC, the company indicated that a lot of potential has been identified in Botswana. Disagreements over the initial selling price in Botswana have, however, put off indefinitely plans to export there. Two points emerge.

First, the firm's attitude reflects a kind of wait-rider-syndrome that most Zambian manufacturers seem to suffer from: they seem to lack the self-confidence and aggression to compete with other PTA companies— even when indications are that they could— for the regional market. They would rather wait until the EBZ or some other GRZ organ does the ground-work for them, or some other firms identify existing export potentials before they go in themselves. The second point is that in the particular case of Copperbelt Bottling Company, there seems to be a lack of recognition— and therefore a foregone opportunity— that there are other ways of making the export debut apart from over-reliance on price considerations.

The other 3 of the traditional 4 Ps, that is Product, Place and Promotion, can and should be explored. A superior-quality, well-promoted and timely-delivered Tip-Top may convince the would-be buyers in Botswana to start importing the drink. We are not convinced that even the price element— in terms of the appropriate export introductory price— has been adequately addressed. A medium penetration-price strategy could be employed instead of a premium-price strategy, with the chance to adjust prices incrementally when the market for tip-top has been established and it has become a house-hold drink in Botswana, among other potential markets.

8.3.4 **Company Threats**

8.3.4.1 **Diversification threatens stability:** the successful diversification into Tip-Top soft-drinks cited earlier has started a hither-to unthinkable phenomenon— marginalisation of Coca Cola products. The Tip-Top products have become so popular and have reduced the local market share of Coca Cola products. For a company with the world's most popular brand name and therefore unaccustomed to playing second-best in any soft-drink market, Coca Cola International (through the London office) is quite concerned and unhappy about this Zambian development. They now (in 1992) want Copperbelt Bottling company to choose between two unenviable positions: cut down the share of Tip-Top products (in production and sales) to a mere 5 percent and increase that of Coca Cola

products to 95 percent, or else face withdrawal of the Coca Cola Franchise. This problem admittedly does not lend itself to easy resolution, suffice to say however that it threatens both the joint venture and detracts top management's attention from other equally pressing challenges posed by current liberalisation initiatives.

8.3.4.2 **Asset utilisation:** certain threats exist with regard to the efficiency with which assets are being utilised, as gleaned from the following turnover ratios from table 8.9:

(a) Total asset turnover ratio: the ratio indicating how many times annual sales cover total assets has deteriorated from a high of 2.04 in 1983 to 0.86 in 1990. This ratio is however used with caution, since it yields no direct information on profits.

(b) Average collection of accounts receivables: expressing the average time in days that receivables are outstanding, this ratio has deteriorated from 27.6 days (under 1 month) in 1983 to 130.4 days (4 months) in 1989 and 111.3 days (3.7 months) in 1990. The large number of days in which payment is not collected— which now seems to be a feature of SAP reflecting general liquidity problems in the economy— increases the probability of delinquencies in accounts receivable.

(c) Inventory holding period or day's inventory: both the inventory turnover ratio and the inventory holding period have deteriorated: the former from a good 7.1 times in 1983 to 1.4 times in 1989 and up slightly to 2.4 times in 1990; the latter from a good 51.6 days in 1983 to a bad 255.3 days in 1989 and 152 days in 1990. Although the firm's liquidity position is sound, the management of both accounts receivables and inventories ought to receive greater attention.

8.4 CASE FOUR : MONARCH ZAMBIA LIMITED, KITWE

The data on Monarch Zambia Limited illustrates one of the practical difficulties of researching into parastatal organisations. We visited the firm three times. The third visit coincided with— by then— the unofficial announcement regarding the privatisation of parastatals— made by the ZIMCO Executive Director for Energy and Corporate Planning at

the March 1992 national conference on Zambia's structural adjustment programme. He listed Monarch as one of the first candidates for privatisation.

When we went to see the General Manager of Monarch for the fourth time, his attitude had changed from cordial to near-hostility. He referred us to INDECO head-office in Lusaka for what he called "anything more to do with your research". We subsequently went to Lusaka, where we found head-office only had financial details on the company up to 1987. INDECO head-office were kind enough to also give us a copy of an (Industrial Development Advisory Team— IDAT) study carried out in conjunction with Equator Advisory Services Ltd and Coopers & Lybrand between 1986 and 1987. It augments our data. We ought to note, meanwhile, that informal interviews were secured with both the Marketing and Sales Managers at Monarch, both of whom we know from our long association with— and running of— the Zambia Institute of Marketing (ZIM).

8.4.1 History and nature of the Company

To be precise, Monarch (Z) Ltd was the second of the first 10 companies about which President Kaunda said in 1968 (Kaunda 1969: p61):

> "I am asking the owners of these companies to give the state at least 51% interest in their enterprises so as to enable us to control and rationalise their production, to eliminate duplication and to lower their prices".

Acquired by the government via the 1968 nationalisation through INDECO, this Kitwe-based metal manufacturer was chosen because, ironically, it is the third parastatal in the first tranche of 17 SOEs advertised for sale by the Zambia Privatisation Agency in September 1992. It also illustrates to a large degree the **captive company concept** with regard to sales of the metal and machinery manufacturing sub-sector to the Mining Industry. We also go some way into supporting the case for its privatisation.

Monarch produces a diversified product portfolio of metal door frames, window frames, geysers, wheelbarrows, welding wire, cans, buckets, dustbins and assorted holloware. Its main competitor in the local market

is Lusaka Engineering Corporation (LENCO)— another SOE. The two companies divide the Zambian market roughly along geographical lines: LENCO covering the southern half of the country, with Monarch focussing on the north where the Copperbelt market is by far the largest. On the Copperbelt the company competes with a small number of medium-sized private engineering companies such as Northland and Hayward Engineering. In the production of geysers Monarch has enjoyed a monopoly of the local market. In the manufacture of welding wire lines, too, there has been a virtual monopoly. The firm' greatest competition is in the manufacture of cans where another INDECO company, National Drum and Can Ltd of Ndola, has far greater capacity than Monarch. Crown Cork Ltd, a private Ndola-based firm, is also a competitor in the manufacture of cans.

Import-dependence: Monarch is heavily reliant on imported raw materials with imports exceeding 60 percent of total raw material cost for all products and reaching as high as 90 percent for welded wire products. In consequence, backward linkages within Zambia are of little importance.

8.4.1.1 Company's long-term objectives

The firm sees its long-term objectives as: (a) securing economic and financial viability, (b) optimising the use of available resources, (c) provision of continuous employment, (d) supplying good quality products, (e) development and maintenance of management and operator skills, (f) increasing market share, (g) expanding and diversifying, (h) embarking on exports, and (i) increasing localisation of raw materials and rehabilitation of plant and equipment.

It is quite apparent, looking at the above objectives, that confusion reigns on the part of the firm's management with regard to the distinction between objectives and strategies, between means and ends. The last three objectives are actually means to ends, not ends in themselves. But is the distinction useful, one may ask? It would mean, for example, that simply commencing exports— which as we shall see shortly they have not done in 24 years— constitutes an accomplished objective, when it is a strategy to some fundamental objective that the

firm should have in mind, for example the desire to increase market share from, say, 10 to 25 percent in an effort to increase sales and profitability.

8.4.1.2 **Company's short-term objectives**

Lacking any specifics in terms of numbers and accomplishment deadlines, the firm sees its short term objectives as: (a) reducing debts and number of debtors [our question : from what percentage to what target? which category of debtors and when?], (b) reducing stock holdings, (c) adding to working capital, (d) expanding sourcing of materials, (e) minimising waste, (f) improving quality, (g) reducing overheads, (h) improving productivity, (i) balancing manning levels, (j) conducting market surveys, and (k) improving operator training.

In addition to being ambiguous for lack of specificity and time-dimension, the short term objectives suffer from the same deficiencies we indicated in 8.4.1.1. Vague, ambiguous and non-measurable objectives mean that the rest of the functional-area managers and employees at the operating level may be unclear about what they will be held accountable for, let alone how their performance will be assessed.

The above objectives also demonstrate one feature that distinguishes SOEs from other firms: the pursuance of multiple and often conflicting objectives. Multiple objectives mean that top management has to do a careful job of managing constituency relationships. Although constituency pressures are not exclusive on SOE-managers, they are more acute for them than in privately owned firms and MNCs (Austin 1982: p5). As Austin (ibid) rightly points out, pressures from outside groups may hinder a SOE-manager's ability to make trade-offs on behalf of the public good.

Monarch's objectives do conflict. The profit and productivity objectives, for instance, conflict with the employment one. The Zambian government itself admits that misunderstanding of profitability as an objective has created serious confusion among parastatal managements (GRZ 1979: p418). It has been common practice for ZIMCO and INDECO companies to recruit personnel well in excess of requirement. In Monarch's case, the IDAT

study found over-manning of the order of 40 percent in the works department alone.

8.4.2 **Company Weaknesses**

8.4.2.1 **Production:** originally Monarch was acquired to supply key inputs to the building industry. However, as private-sector competition developed in the early 1980s and the firm could not afford the high-Kwacha bids for forex to import raw materials during the 1985-87 forex auctioning period, it began to lose market share.

TABLE 8.11 Monarch (Z) Ltd: PLANT CAPACITY AND UTILISATION RATES BY PRODUCT LINE.

	Annual Capacity	1985/ 1986	Utilisat Rate(%)	Budget 86/87	Actual 1st QTR 86/87	Utilisat (%) 1st QTR, 86/87
Pressed Metal	40000	7800	19.5	32930	2924	29.0
Window Frames	44000	24000	54.5	16440	2140	19.0
Cans (000)	1000	280	28.0	760	76	30.0
Geysers	4000	2100	52.5	2950	407	41.0
Holloware	80000	44600	55.8	53500	4713	8.0
Welded Wire	7500	na	na	5500	163	9.0
Wheelbarrows	13200	2925	22.2	5375	889	27.0

SOURCE: CSO (1986, 1987); IDAT STUDY (1987)

Given its high import-dependence (over 60 percent— see chapter 7) and the fact that it generates no foreign exchange of its own, capacity utilisation (table 8.11) has been particularly vulnerable to fluctuations in forex availability. The firm used to operate at roughly 50 percent of capacity before the forex auction started in 1985. Since then, this has gone down to around 30 percent. Imports of raw materials used to manufacture Monarch's product range incur import duties and sales tax. The major inputs of steel sheet, steel tubing and tin plate all incur 15 percent import duty and in addition sales tax at 20 percent of cost, insurance and freight (c.i.f) cost. This results in raw material costs being high, in turn contributing to the high costs of production.

Table 8.12 compares Monarch prices with those of competing finished imports, whose import tariffs and sales taxes are given as of 1987. Only door frames and holloware have higher prices for Monarch than competing imports.

Monarch's products are priced well below border prices not because they are more efficiently produced— capacity rates of 30 percent point to obvious dis-economies in production— but rather because the firm, as a SOE, has failed to adjust prices in line with its high production costs because of the legacy of GRZ controls.

Table 8.12 Monarch (Z) Ltd: DUTIES AND TAXES LEVIED ON COMPETING FINISHED PRODUCTS AND PRICE COMPARISONS BY PRODUCT LINE

	Import Tariff (%)	Sales Tax (%)	Monarch Prices (K)	Border Prices (K)	Price Diff
Door Frames	30	20	307	288	19
Window Frames	30	20	348	390	-42
Geysers	30	20	1778	3460	-1682
Wheelbarrows	30	20	311	684	-373
Welded Wire	15	20	2645	2645	0
Cans (per kg)	30	20	16	36	-20
Holloware	20	20	711	115	596

SOURCE: CSO (1986, 1987), IDAT study (1987).

According to GRZ (1989b: p17), as recently as 30 June 1989 there were still more than 23 commodities whose prices were still set by statute. On that day the Kaunda government announced a series of new economic measures, among them decontrol of all prices— except for maize meal— and widening of the sales tax base to include all imports and all locally manufactured consumer goods and services.

8.4.2.2 **Finance and Accounting:** As table 8.13 shows, the firm made moderate improvements in turnover between 1982 and 1985, when sales declined by K1.5 million to K8.5 million. Profits made a similar improvement until the auction in 1985, when raw material imports became more erratic due to forex shortages principally as a result of the firm's incapacity to match other bidders for the weekly-auctioned forex. The first quarter of 1986/87 alone witnessed profits disappear into the red by K369,000 despite the fact that the firm revised prices upwards 3 times in 7 months (July and November 1986, and in January 1987).

The rather poor financial record is further supported by our analysis of relevant ratios and inventory movements in table 8.14. Debt collection— which we gather has traditionally been done by the marketing department rather than Accounts department personnel— has been consistently poor

at an average of 2.5 months. This has tended to starve the firm of the cash component of net working capital. This is so because the lower the turnover of receivables, the longer is the time between sales and cash collection and generally the greater the probability of bad debts. The firm has managed, however, to extend creditor's facilities (that is, settlement of accounts payables) from 71 days to 128 days, though this may be a precursor to poor credit-worthiness.

TABLE 8.13 Monarch (Z) Ltd: PROFIT AND LOSS STATEMENT (K'000)

	1982/83	1983/84	1984/85	1985/86	1st QTR 86/87
Sales	6955	9446	10037	8454	5695
Manufacturing Costs	4927	7125	5616	4059	3670
Administration Expenses	1099	1364	1671	2418	1363
Selling & Distr. Expenses	248	359	743	1011	307
Financial	137	300	500	108	250
Deferred Expenditure			278		
Gross Profit	544	298	1229	858	105
Less taxes paid	73	204	112	52	474
Net Profits	471	94	1117	806	-369

SOURCE: IDAT STUDY (1987)

Table 8.14 Monarch (Z) Ltd: FINANCIAL RATIOS AND INVENTORY

	1982/83	1983/84	1984/85	1985/86	1st QTR 86/87
Current Ratio (times)	1.53	1.24	1.25	1.29	1.22
Acid Test Ratio (%)	85	64	61	36	45
Stock to Working Capital (%)	0.13	0.31	0.57	1.02	0.72
Inventory turnover (times)	4.58	3.91	3.21	1.44	1.06
Avge collect of Receiv (days)	76	81	95	93	65
Avge sett of Accts Payab (days)	71	58	72	118	128
Gross profit margin (%)	7.8	3.2	12.2	10.1	1.8
INVENTORIES (K'000):					
Raw materials	909	1170	1824	3292	3247
Work in Progress	221	244	121	481	792
Finished goods	157	305	697	1906	1103
Goods in transit	234	686	477	176	98
Consumables		13	3	15	112
Total	1521	2418	3122	5870	5352

Gross profit margins have been low, with the slightly improved figures of 12.2 and 10.1 percent in 1984 and 1985 reflecting increased selling prices rather than increased volumes. Administration expenses (table 8.13) have gone up 30 percent on average every year during the period under consideration; rising from 15.8 percent of turnover in 1982 to 28.6 percent of sales in 1985. Gains made through increased prices have been eroded through both low production and high establishment costs. The

firm's working capital position, though positive, has been declining rapidly, showing a low liquidity position through the acid-test or quick ratio. Finally, some comments are in order regarding inventory levels in table 8.14. There is evidence of overstocking in finished goods provided by:

(a) The inventory turnover ratio: from a reasonable stock-turnover of 4.58 times a year in 1982, this worsened to 1.44 times in 1985. Even for slow-moving items, this level of turnover is unsatisfactory. Admittedly the long lead-times for imported raw materials tends to tie-up a high value of stock, but the very low stock-turn of 1.44 times allows far too large a margin of error in ordering procedures. This confirms the worsening liquidity position measured by the acid test ratio which declined from 85 percent in 1982 to 45 percent in 1987. The low stock-turn is incapable of sustaining healthy cash generations. There is another story that the firm's declining inventory turnover ratios do not reveal: the apparently poor coordination between the production, purchasing and marketing departments leading to a situation where inventories of products experiencing low demand (such as window frames and welded wire products due to depressed markets) have been available whilst products of relatively higher demand (such as geysers) have not been available.

The declining turnover levels cast doubts on the quality of overall marketing effort in a company where the other performance indicators are generally unsatisfactory.

(b) Inventory levels in table 8.14 confirm developments in (a) above: finished goods were only 10.3 percent of inventory in 1982, rising to 32.5 percent in 1985 and 20.6 percent during the first quarter of 1987. The bulk of the remainder has been held in raw materials (59.7 percent in 1982; 48.4 percent in 1983; 58.4 percent in 1984; 56 percent in 1985 and 60.6 percent in 1987). These figures confirm considerable over-stocking of some items— the undesirable build-up of slower-moving goods.

8.4.3 Company Opportunities

8.4.3.1 **Production:** the plant and equipment seems versatile in that a wide range of products have been produced. The opportunity does exist to utilise the 70 percent excess capacity in the production of current and

related future products without major investments in additional equipment. The excess capacity at sheet metal processing machines could be utilised, for example, to diversify into the production of simple agricultural implements such as hoes and spades for the local market.

8.4.3.2 **Debt—Equity position:** the firm has no long-term debt, enhancing opportunities for borrowing for expansion in the future if its fundamental problems in production and marketing can be corrected.

8.4.4 **Company Threats**

8.4.4.1 **Captivity to the mining industry:** wheel-barrow production involves 3 models: one specifically for the mining industry (ZCCM), another for the building industry and the third a general purpose type. It is the mines model that has been generating the most sales, accounting for more than 75 percent of all wheelbarrow sales and a significant portion of total sales. This captivity to the mining industry had been a looming threat. It is understood that in 1987 ZCCM switched to another supplier on the basis of lower prices, leaving Monarch in the years since trying desperately to adapt its products to meet ZCCM's price and quality requirements.

Table 8.15 Monarch (Z) Ltd: MARKET SHARE (% OF TOTAL INDUSTRY SALES) BY SELECTED PRODUCT LINES

	1983/84	1984/85	1985/86
Windows and Door frames	51	40	29.8
Welded wire	10	59	39.2
Electric water-heaters	79	87	76.0
Wheel-barrows	50	56	44.0
Galvanised holloware	40	30	40.9
Cans	24	20	12.1

SOURCE: IDAT study (1987)

8.4.4.2 **Competition:** trade liberalisation under the MMD threatens the very existence of companies like Monarch. Already, competition in what have traditionally been some of the firm's major lines (cans and wheel-barrows) and its share of these markets is under severe pressure. The local building industry— to which Monarch has also been captive— has been contracting in recent years alongside the entire Zambian economy, a trend that experts interviewed in the field believe is likely to continue for some time yet. Monarch is therefore likely to be hit hard from two

sides: reduced market share and increased competition. Table 8.15 shows the company's market share peaking for all products in 1984 and beginning to decline with forex auctioning in 1985. The firm's share in the window-frame and door-frame lines has been lost mostly to LENCO, who have increased their production due to better forex procurement power— because of the company's high Kwacha generating capacity. In addition, Monarch's door-frame prices are higher than LENCO's. Welded wire sales have been lost to Art Engineering of Ndola. The other product lines began to suffer from the more liberal import regime which introduced pressure from imports.

8.5 Chapter Conclusions

The second of two empirical chapters, our task in chapter 8 has been to move a step beyond the sub-sector analysis provided in chapter 7 and focus attention on the impact of SAP at the firm-level. 4 cases were chosen to achieve this goal: a private, wholly Zambian-owned firm (Swarp Spinning Mills of Ndola); a multinational company (Colgate-Palmolive Zambia Limited of Ndola); a locally managed subsidiary of Lonrho Zambia which has a Coca Cola franchise (Copperbelt Bottling Company of Kitwe); and a parastatal company (Monarch Zambia Limited of Kitwe).

Two aspects of the 1983-93 SAP are found to have been largely responsible for both the costs and benefits experienced by the 4 different companies: foreign exchange shortages and trade liberalisation , including the lifting of import controls, freeing of interest and exchange rates, and liberalisation of the foreign exchange allocation system. Only the parastatal company, Monarch, is found to not have benefited from the SAP experience— though our financial data only goes up to 1987.

Established in 1981, Swarp Spinning Mills Ltd sources 90-95 percent of its raw materials locally. The 50 percent forex retention scheme inspired the firm to commence exports in 1985 at the beginning of the forex auctioning period. It has in only 6 years moved to the top 5 of Zambia's non-traditional forex earners. Strategic advantages lie in strong backward linkages to the agricultural sector; the quality of its

management and products; and good relationships with foreign customers. As with the other two beneficiaries of SAP, the company has enjoyed a steady rise in financial performance, with net profit margins rising from 14 percent in 1987 to 25.6 percent in 1991. Its financial base and good credit-worthiness have made it possible for the firm to embark on an ambitious K2.6 billion production capacity expansion programme as further opportunities to increase exports have been identified in Europe and Botswana. This development will add 428 new jobs to bring the total workforce to 1,058.

Major threats to SSML's operations have come from the drought (affecting local cotton output), the liquidity squeeze from BOZ, and "brief-case importers" of substitute products who evade tariffs.

Colgate-Palmolive Zambia Ltd, established in 1967, has benefited from the more liberal forex allocation systems, the auction of 1985-87 and the current market exchange rate system/retention rate. Unlike under state-managed allocation systems when vital raw material imports were erratic due to biases in allocating the scarce forex, the firm now buys all forex needs from whoever has the money, using its huge reservoir of current assets. More importantly, recent liberalisation initiatives have un-blocked its back-log of dividend and royalty remittances, by far its most critical problem— in the opinion of the company's Manufacturing Director.

Open trade with South Africa following trade liberalisation has opened opportunities for this MNC to net-work with other Colgate subsidiaries in the region to coordinate production, training and market segmentation and to reduce intra-Colgate competition. Colgate South Africa is viewed as an important player in this network, from where Colgate Zambia now plans to source (cheaply) the bulk of its raw material imports. Government economic policy instability, leading to the company's inability "to plan beyond next week", and the liquidity squeeze from BOZ have been the main SAP-inspired threats to its operations.

Copperbelt Bottling Company is a living testimony that some government dis-incentives can lead to very successful import-substitution. The GRZ

ban in 1986 of all luxury imports (coke concentrates in this case) due to forex shortages in the economy led to successful new product development and 100 percent local raw material sourcing. The new soft drink, a wide range of Tip-Top drinks, is quite popular, and has edged Coca Cola products out of the number one spot in sales and market share on the Zambian market. This has led to the current conflict with Coca Cola International— through the London office— who want Coca Cola production to take priority over Tip-Top drinks.

Of the 4 cases, Monarch has been the only outright victim of both trade liberalisation and the market-determined forex allocation system. The firm has been under competitive pressure from both within and imports, with unequal tariffs with finished imports playing a major role.

Production is found to be constrained by shortages of foreign exchange for the importation of more than 60 percent of vital raw materials, especially beginning in 1985 following the introduction of forex auctioning by GRZ. Previously, Monarch enjoyed some preference (as a SOE) under state-managed forex allocations. Capacity utilisation is as low as 30 percent as a result. It is also constrained by high product stocks due to low demand for some products. Also, information from the marketing department is not sufficient for optimum use of the firm's resources to provide rapid availability of products and avoid high stocks of slow-moving products. For Monarch (Z) Ltd, the result of these various constraints is that the factory is run as a series of jobbing-shops, with all the down-times and additional costs that this entails. These and several other factors have combined to lead to losses, and the firm's current first-tranche candidacy for privatisation.

Having thus provided some appreciation of how the adjustment programme has affected the manufacturing sector— as discussed in both chapters 7 and 8— it now remains for us to answer the most critical question regarding the export performance of Zambia's non-copper or non-traditional sector. To what extent non-traditional exports are ready to replace copper in export earnings is the subject of chapter 9.

FOOTNOTES

1 The company has its own laboratory equipped with highly sophisticated testing and analysing instruments for systematic quality assurance to help it remain competitive, both locally and internationally.

2 Burnet Walker & Co Ltd were visited and interviewed in Glasgow upon this author's return from Zambia. The aim and outcome was to get a feel for foreign customers' views and reactions about business dealings with Zambia in general, Swarp Spinning Mills in particular. Appendix 8.1 is the subject of the interview.

3 SSML negotiates medium-term contracts with foreign customers, and prices are fixed every 4-6 months. Volume contracts are for longer periods.

4 In a letter to the MD of SSML (Mr R J Patel) dated 11 September 1991 the Director of Burnet Walker & Co (Mr R S Burnet) wrote, in part:

"Thank you very much for all the kindness shown to me during my visit to Ndola. It was a very interesting visit and long over-due, and I do hope both companies will benefit from this. We have been doing business together now for many years and we consider Swarp and its management our true friends in Africa. As a result we will continue to give you our support and make sure you always get the first chance at our total requirements to make sure the business and understanding between us continues to grow. RJ, you are a true friend to me and I hold that friendship in the highest regard".

5 This author knows the common practice in Zambia is for customs officers preferring to inspect in-coming goods at the owner's own premises instead of at official customs offices. The reason is simple: given customs officers' poor salaries and the high cost of living, a K2,000 bribe of an officer is more important to him than K200,000 paid officially as duty at official premises and earmarked for GRZ coffers. A customs officer has only to get such K2,000 kick-backs from 10 people in a month to make K20,000, which is twice his take-home pay. Life goes on.

6 Production (in metric tones), as further broken down along the 5 major product lines, is given in appendix 8.2.

7 The sales figures, as further broken down along the 5 major product lines, are given in appendix 8.2B.

8 Some of the most significant components of the cost of goods sold (COGS) are given in appendix 8.2C.

9 The budgeted sales figure of K2,225,845,000 [K2.2 billion] for 1992 is broken down by the company by quarter as follows (in K'000):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Traditional Products	492398	463944	486536	452808	1895686
New Products	87071	79906	84473	78709	330159
	579469	543850	571009	531517	2225845

10 For a company that has been in business since 1950, one would expect some sort of experience-curve benefits to be apparent. If not, at least economies of scale can be obtained through a variety of actions by management at Copperbelt Bottling Company. These include higher utilisation of existing facilities, using higher volume facilities which have lower capital cost per unit of capacity and permit increased through-put without a proportional increase in manpower. In a nutshell, cost improvements are possible.

CHAPTER 9: THE PERFORMANCE OF ZAMBIA'S NON-TRADITIONAL, NON-COPPER EXPORT SECTOR

9.0 Chapter Objectives

In section 1.4.2 of chapter 1 we stated, as partial justification for undertaking the study on manufacturing, experts' forecasts that useful copper-ore deposits on the Copperbelt will be exhausted early in the next century. Zambia Consolidated Copper Mines (ZCCM) Chief Executive Edward Shamutete disclosed in June 1992 that Nchanga open pit mine and the Tailings Leach Plant will be exhausted by the year 2000, as will Luanshya and Baluba mines. Konkola, Mufulira and Nkana mines may last until 2010 (News from Zambia, 6 June-8 July 1992). Harvey (1991: p146) makes the same prediction.

By far the most important goal of Zambia's structural adjustment programme has been the need to reduce over-dependence on copper export earnings by diversifying the non-copper/non-traditional export base to a point where it replaces copper in export earnings.

By examining export data from the Export Board of Zambia (EBZ) and other sources this chapter assesses— both qualitatively and quantitatively— whether the switch from copper is under way and, if so, how long it will take for non-traditional exports (NTEs)— both primary commodities and manufactured exports— to replace copper in export earnings. This represents what Professor Tony Killick, during the March 1992 national conference on Zambia's SAP, called "the crux of Zambia's adjustment problem".

This part of our analysis will still use, but goes beyond, data from the 43 surveyed firms that we used for chapters 7 and 8. A near-complete population of companies— exporting $10,000 or more worth of primary and manufactured products annually according to the EBZ (1987 to 1992)— will be used to make the critical assessment. Data from the IMF (as quoted in the Financial Times of 17 December 1992), and the October 1992 edition of New African is also utilised. Our survey findings in chapters 7 and 8—

especially pertaining to such manufacturing performance indicators as import dependence levels and average capacity utilisation rates— will play a vital analytical role.

9.1 Export performance

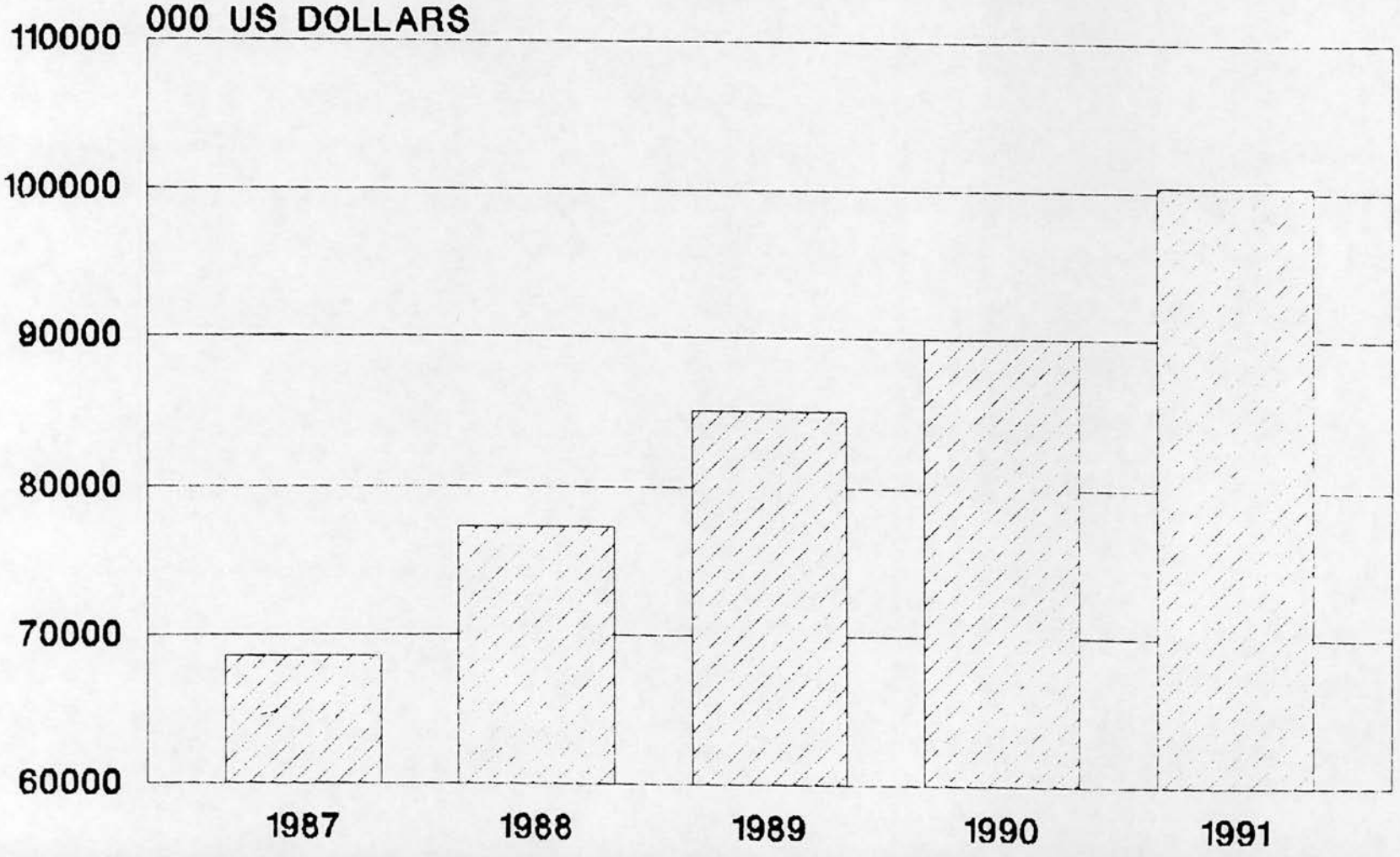
Both figure 9.1 and table 9.1 show that NTEs grew from $68.57 million in 1987 to $100.43 million in 1991. Yearly percentage increases have been modest at 13 percent in 1988, 10 percent in 1989, 6 percent in 1990 and 12 percent in 1991 giving a 5-year average growth rate of 10 percent. Export performance by sub-sector has varied with a number only recording marginal increases. Appendix 9.1 reports growth rates of the 9 leading sub-sectors of the visible[1] non-traditional export sector.

Table 9.1 Zambia's actual visible non-traditional export earnings by sub-sector, 1987-1991 ($'000).

	Total Exporters		EXPORT EARNINGS				
Sub-sector	1989	1991	1987	1988	1989	1990	1991
Animal Products	7	8	2471	2992	4203	2292	1185
Building Materials	8	7	3175	3125	3284	3597	3699
Chemical Products	13	13	4911	4003	3359	3090	2551
Engineering Products	3	6	17289	22737	22576	19622	27792
Floricult Products	4	6	330	363	750	1050	1902
Garments	6	6	2172	3201	2423	2514	2566
handicrafts/Curios	3	4	11	18	27	187	95
Horticult Products	11	11	1727	3113	2713	4544	5807
Leather	3	3	220	426	844	1039	675
Minerals	3	3	1793	3010	2771	1713	1824
Mining Equipment	3	3	467	412	385	368	75
Other Manufactures	6	6	224	277	332	1086	907
Petroleum Oils	1	1	9282	7421	7521	11144	3742
Primary Agric Commod	10	8	5150	12793	18546	14542	22761
Processed Foods	5	6	5350	2913	1631	6197	4758
Semi-Precious Stones	3	3	7864	5232	5945	7638	10189
Textiles	11	13	5838	4968	7844	8586	9380
Wood Products	7	7	301	266	217	791	520
Total NTEs			68573	77268	85172	89997	100428
Companies exporting $10,000 or more annual	107	114		78	107	119	114
Growth rate in NTEs (%)				12.7	10.2	5.7	11.6
Average growth rate for the 5 years 1987-1991 is therefore =							10.1%
Total NTEs less ZAMEFA exports of:			17143	22300	25000	17649	15827
Total Net NTEs			51430	54968	60172	72348	84601

SOURCE: EBZ EXPORTER AUDITS (1987-1992)

FIGURE 9.1
ZAMBIA'S NON-TRADITIONAL EXPORTS



The leading NTE sector— engineering products— is in fact mis-leading. The two largest of the 6 firms in the sub-sector, Metal Fabricators of Zambia (ZAMEFA) and Inshimbi Iron & Steel, use copper as the predominant raw material, reflected also in the nature of their export products of copper extrusions/wires and cables. Inshimbi iron & steel has a misleading name, as the company is actually copper-based. ZAMEFA has also been exporting for a sufficiently long period— more than 15 years— to be a traditional exporter. For these reasons, it can be argued that they are not strictly NTEs.

Exports of primary agricultural commodities rose by 57 percent from $14.54 million in 1990 to $22.76 million in 1991 due mainly to increased output of coffee and tobacco, which also enjoyed better average prices. In 1991 decreased earnings were recorded in exports of day-old chicks, beef and frozen fish (exports of animal products declined from $2.3 million in 1990 to $1.2 million in 1991); in exports of processed foods (from $6.2 million in 1990 to $4.8 million in 1991); and in exports of refined petroleum products including petrol and diesel (from $11.14 million in 1990 to $3.7 million in 1991)— the latter due to sourcing and crude oil price difficulties associated with the gulf crisis.

9.2 Supply limitations

A number of exporters in our sample told us that production of internationally competitive goods and their ability to meet minimum quantity, quality and delivery schedules have been hampered by obsolescence of their plant and machinery which has resulted from years of "neglect" and no re-investment, except for occasional and partial "rehabilitation exercises" undertaken after break-downs. Making a similar observation the EBZ (1990: p22) says these problems are reflected in the paucity of the NTE-sector's proportion of exports in total production, which it places at around 11 percent. This means that the sector sells, on average, 89 percent of total output on the domestic market. To these difficulties and the manufacturing sector's rigidities discussed in chapters 7 and 8 must be added exporters' displeasure with Zambia's transportation net-work— Zambia railways and TAZARA, the airlines and

road haulers— regarding delays, mis-direction of cargo, and high freight rates.

The proclaimed policy objectives of the several devaluations during the period— such as the ones of 1982, 1989 and in 1992— were aimed principally at boosting NTEs and discouraging imports. By raising the price of imports in Kwacha terms— after a devaluation Zambian firms need more Kwacha to buy the same forex for the same level of imports— devaluation has been aimed at ensuring that firms import less and look in-wards for raw materials. By increasing the Kwacha prices that Zambian NTEs can get from exporting, Zambian producers are supposed to experience incentives to export more and sell less on the domestic market. Both goals, from our evidence, have failed.

Import-dependence— estimated in chapter 7 at 60 percent— has hardly changed during the first decade at adjustment. Manufacturing firms have not tapped local raw materials either because such materials are not there, are expensive when they are, are inferior, or remain un-developed.

Kwacha devaluations[2] have not only pushed up import-prices, they have also tended to push up the prices of, in Woodward's (1992: p46) words:

(a) Local goods which could otherwise be exported— because local goods with a high imported component are uncompetitive to export. Zambezi Paper Mills— one of the firms we interviewed which imports 80 percent of its raw materials— reacted to this issue this way:

"Our company only sells on the local market. Not that management wants it that way but it is forced to produce for the local market because devaluation has led to higher production costs, making our paper uncompetitive in price terms on the export market".

(b) Locally-produced goods whose prices rise as an indirect result of devaluation. For example, Copper Harvest Foods Ltd— a Ndola-based food manufacturer despite its confusing name— complained[3] to us that the January 1992 devaluation of the Kwacha by 30 percent led to a 150 percent rise in the price of locally sourced tomatoes. This forced them

to adjust upwards the price of tomato ketch-up and jams to try and off-set losses. But the price rises have been marginal and, in the words of the Executive Assistant to the Managing Director:

"our margins have now been over-stretched to the point where we are not making any profits on our product lines".

(c) Locally-produced goods which use imports— because their higher prices increase production costs. During the open discussion session on day one of the 21-23 March 1992 SAP conference in Zambia Professor V Seshamani— from the University of Zambia— called for what he termed a "decently respectable" exchange rate that would allow companies to plan. He argued:

"If Zambia simply goes on devaluing plus doses and devaluing plus doses thinking that exports will go up, they are not going to go up because of problems ranging from lack of information about foreign markets to poor product quality. Also most companies are heavy importers which you know by virtue of their technologies are highly import-dependent".

9.3 **Export markets:** as indicated by the figures presented in table 9.2, while Zambian visible exports to Africa accounted, in value terms, for 51 percent of the total in 1987, the corresponding percentage share has been continuously dropping to reach 24 percent by 1991. In contrast, the EC has remained the most important market, absorbing 39 percent of Zambia's exports in 1987 and rising to 51 percent in 1991. The Far East has consistently increased its share to reach about 20 percent of the total by 1991 due to increased exports of copper extrusions, wires and cables from ZAMEFA, as well as gemstones (EBZ 1992).

Within the above overall picture, we find that within the PTA and the rest of Africa the largest importers of Zambian manufactures are Malawi (31 percent of total exports to the PTA from 1987 to 1991); Zaire (19 percent); and Zimbabwe (16 percent). Between them they have accounted for 66 percent of all exports to Africa between 1987-91. Tanzania (12 percent) and Burundi (13 percent) are the other major destinations, the 5 together accounting for 91 percent of total exports.

In the EC, the United Kingdom is the leading importer of Zambian NTEs, averaging 49 percent of all exports to the EC for 1987-91. It is followed by Germany— at 23 percent— and together they have accounted for 72 percent of total 1987-91 NTEs to the EC.

Table 9.2 Destination of Zambia's visible NTEs, 1987-1991 (%)

Market	1987	1988	1989	1990	1991	Significant Averages
1. PTA	51.22	26.00	40.60	41.47	24.38	36.73
Of which:						
Malawi	21.10	27.00	51.74	31.40	22.39	30.73
Zaire	23.73	19.23	8.68	22.48	21.33	19.09
Zimbabwe	11.34	19.23	16.63	17.42	16.01	16.13
Tanzania	9.60	11.54	14.83	11.02	12.37	11.87
Burundi	17.14	23.00	6.54	7.82	9.98	13.00
Kenya	1.65	0.00	0.00	3.33	6.74	
Botswana	1.44	0.00	0.00	0.99	6.26	
Angola	7.90	0.00	0.00	4.55	3.02	
Other PTA	6.10	0.00	1.58	0.62	0.83	
Namibia	0.00	0.00	0.00	0.05	0.58	
Mozambique	0.00	0.00	0.00	0.15	0.45	
Uganda	0.00	0.00	0.00	0.17	0.04	
2. EEC	39.15	44.00	28.56	33.24	51.25	39.24
Of which:						
U K			54.39	48.83	44.61	49.28
Germany			17.93	25.71	26.64	23.42
France			3.28	1.09	14.26	
Holland			5.21	7.22	7.37	
Italy			19.19	14.32	6.04	13.18
Ireland			0.00	1.95	0.75	
Portugal			0.00	0.59	0.33	
Greece			0.00	0.29	0.00	
3. Far East			9.39	15.55	19.61	14.85
4. Switzerland				7.71	2.38	
5. South Africa				0.92	1.11	
6. Other Markets	9.63	30.00	4.57	1.00	1.05	
7. Other Europn Mkts			16.88	0.11	0.22	
Total	**100%**	**100%**	**100%**	**100%**	**100%**	

SOURCE:: Compiled from EBZ Exporter Audits (1987-92)

Zambia's NTEs, in effect, go to only seven major foreign countries— five in Africa and two in the EC. **There is an obvious danger to this kind of "market captivity", in the sense that economic developments in these 7 nations ultimately dictate the level of Zambian exports.** The PTA, for instance, imported 42 percent ($37.3 million) of Zambia's NTEs in 1990, but this nose-dived to 24 percent ($24.5 million) in 1991 due to reduced imports of petroleum products by Malawi; reduced imports of beef, mining

equipment and other engineering products by Zaire; and reduced exports to Zimbabwe as that government became more protectionist and did not issue import licences to Zimbabwean importers easily (EBZ 1992). A number of exporters have also been unable to establish themselves in certain markets because of "their failure to comply" with market practices there. A case in point is Zaire, where exporters are expected to pay a commission (bribes) to agents. Zambian exporters complained to us about payment problems from Zaire. Ndola Lime, for instance, abandoned exports to Zaire in 1992 due to long-standing payment problems from importers in Zaire.

Non-traditional export implications of the copper-crunch scenario

9.4 Prospects for NTEs to replace copper: 5 scenarios

What are the chances that total NTEs (that is visible exports by manufacturing and invisible exports by energy, tourism and other services sectors) will replace copper by the year 2010? What are the chances that exports from manufacturing **alone** will replace copper by the year 2010 so that earnings from invisibles can then arguably go towards recovery elsewhere in the economy? **From Zambia's point of view, the major interest is not simply in having enough NTEs to replace copper. This is a necessary but not sufficient objective. The overriding concern is economic recovery, for which NTEs need to grow beyond just replacing copper.** We use the following important assumptions to address these and related questions:

(1) Average annual forex earnings from NTEs are $250 million (see among others the Financial Times, 17 December 1992; and New African, October 1992). Of these, approximately $125 million (or 50 percent) is attributable to visible NTEs (manufacturing sector) alone. Total visible exports of $100,427,730 for 1991 make this a reasonable assumption with regard to the $125 million for visible exports.

(2) In the manufacturing sector, we assume there are in 1992 a total of 120 exporting companies. Again, 114 actual exporters of above

$10,000 worth of visible NTEs in 1991 make this a reasonable assumption.

(3) We assume that current average copper earnings are $1.1 billion per year, as given by both the IMF and New African (ibid). Given current structural problems facing the Zambian copper mines as covered in chapter 1— such as high production costs— it is difficult for anyone to assume any dramatic increase above this figure.

(4) We also assume that average Zambian imports per year remain at the 1991-93 IMF estimate of $1.033 billion (appendix 9.2)— that is the country enjoys at least a minimal positive trade balance. A large negative trade balance emanating from growth in imports more than out-pacing export growth would impose an even more onerous burden —especially if we assume that imports are to be financed predominantly by export earnings and not Bank and Fund balance of payments support— to say nothing about the adjustment dilemma itself.

(5) We assume two dates: the chances of NTEs replacing copper by the year 2000, or of doing so by the year 2010. The latter date takes cognizance of the fact that SAP effects take a long time to manifest themselves in improved products, markets, distribution channels and necessary attitudinal changes. We made the point, in chapter 5, that Zambia's problems are long-term and structural in nature. We now identify five scenarios under which such replacement would take place.

9.4.1 Total NTEs

(a) At the current average growth of 10 percent in NTEs (table 9.1), it will be 2010 (another 17 years) before total NTEs can replace copper in forex earnings.

(b) Replacing copper by the year 2000 means that total NTEs have to grow, beginning in 1994, by an unprecedented 27 percent per year on average. This compares with the rate of 29 percent growth in NTEs suggested by Professor Tony Killick at the 21-23 March 1992 SAP conference in Zambia.

9.4.2 Visible (manufacturing) NTEs

(a) At 120 visible non-traditional exporters; $125 million annual exports in 1992 and 10 percent average growth in NTEs, it will be 2010 before the manufacturing sector portion of NTEs **alone can grow just half-way** towards replacing copper in export earnings— to just over $600 million. Remember that we are using the IMF copper-earnings figure of $1.1 billion as mentioned earlier.

(b) Replacing copper **half-way** by the year 2000 given the 120 exporters, on the other hand, will call for a 20 percent growth in visible NTEs as of 1994. 1994 is used because it is the first full year in which the findings and recommendations of our study would be ready for implementation by the various parties to be discussed in chapter 11.

(c) If the manufacturing sector alone is to replace copper by 2010, then either of two important things needs to happen. Either:

(i) The **number** of non-traditional exporters with average yearly earnings of over $700,000 needs to rise from the 1992 estimate of 120 to 1,935 by the year 2009— an incredible 1,554 percent rise. The $700,000 is just the arithmetic mean from export results in table 9.1, whose clarification is called for because otherwise it might look peculiar.

(ii) The **number** of visible NTEs needs to **double** to 240 by 1994 (so that in that year total visible NTEs amount to over $168 million) **and** growth in NTEs by that year needs to be 15 percent. This means that exporters have to increase the share of exports in total production from the current estimate of about 11 percent. This increase, in turn, entails improvements in the product (new products and improvements in the overall competitiveness of existing ones); price; promotion; and place or markets (diversifying into new markets and/or deeper penetration of existing ones).

9.4.3 Is it possible?

The five scenarios above clearly present the enormity of Zambia's adjustment task. The question at this point then becomes: is any of the above scenarios possible, given what we now know about the structural rigidities of the Zambian economy and its manufacturing sector in particular? This author thinks it is difficult to be optimistic, given that all 5 scenarios are really functions of wider factors: national and international, macro and micro, controllable and uncontrollable. We discuss national factors and manufacturing sector responses next.

9.4.3.1 **National factors:** Zambian manufacturing growth will depend on the formulation, at both the macro and micro levels, of clear industrial policies, maintaining stability in these policies and avoiding injurious government adhoc interventions. We ought to emphasise for instance that the ability of the Movement for Multiparty Democracy (MMD) and future Zambian governments to combat inflation— currently 225 percent and rising— will affect directly both savings and investment levels, both currently very low according to Magande (1992) and which ultimately affect overall manufacturing growth.

9.4.3.2 **Manufacturing sector responses:** the extent to which the sector itself handles the product, price, promotion and place/distribution will be equally critical to overall manufacturing success. On both the national and international markets, the speed and extent to which Zambian manufacturing responds to issues of productivity, product quality, price, promotion and distribution will ultimately determine the sector's success. Distribution and marketing channels cost a lot of money and take a long time to create, as do new products. They are also prone to non-tariff barriers and protectionism in potential export markets.

Looking at our survey data in chapters 7 and 8 and export performance as described in this chapter, the picture regarding prospects for manufacturing transformation does not give much cause for optimism. Below we discuss some of the reasons why.

(a) **Small current NTE-base:** several statistics show that Zambia's NTE-base is small. Although table 9.1 shows the number of exporting firms growing from 78 in 1988 to 114 in 1991, actual export receipts only recorded a marginal total increase of $23 million— from $77 million in 1988 to $100 million in 1991. These levels of exports are far too small, given the overall target of around $1.1 billion needed to replace mineral exports. If data were available we would at this point calculate the net replacement figure, which would no doubt be quite high given that all the 5 main economic pillars we discussed in chapter 1 depend for their foreign exchange needs on copper.

What is more, Export Board of Zambia audits between 1987 and 1992 indicate that only 23 firms each exported products worth $1 million or more in the 4 years 1987-1990, rising to 26 in 1991 with the addition of a textile firm and Inshimbi Iron & Steel Engineering Company of Luanshya which deals in copper extrusions and wires.

The 23 firms accounted for 88 percent of NTEs in 1987, 89 percent in 1988, 91 percent in 1989, 87 percent in 1990 and 88 percent in 1991— for an average of 89 percent of NTEs over the period. No great imagination is needed to realise that any detraction from the performance or competitiveness of the 26 firms automatically leads to a disproportionate effect on Zambia's total NTE-earnings.

Table 9.3: Zambia's 26 leading NTEs by sub-sector, accounting for 89 percent of total 1987-91 exports.

SUB-SECTOR	NAME OF COMPANY	SUB-SECTOR	NAME OF COMPANY
Animal Products	Lendor Agricultural Holdings	Building Materials	Chilanga Cement Limited
Chemical Products	Chloride (Z) Limited	Engineering Products	ZAMEFA
	Kafironda Limited		Inshimbi Iron & Steel Ltd
Floricultural Prod	Enviro-Flor Limited	Garments	Serioes International Ltd
Horticultural Prod	York Farms	Minerals	Maamba Collieries Limited
	Galaunia Farms	Petroleum Oils	Zimoil Division
Primary Agric Comm	National Tobacco Company	Processed Foods	Zambia Sugar Company Ltd
	Zambia Coffee Company	Semi-Precious Stones	Kariba Amethyst Mkting Ltd
	Lonrho Cotton		Zambia Emerald Industries Ltd
	Zambia Co-per Federation		Reserved Minerals Corp Ltd
	Mpongwe Devel Company Ltd	Textiles	Swarp Spinning Mills Ltd
	Lint Company of Zambia		Mukuba Textiles Ltd
	Gwembe Valley Dev Company		Kafue Textiles (Z) Ltd

SOURCE: EBZ EXPORT AUDITS (1987-1992) AND SAMPLE SURVEY DATA

The 26 top exporters, by sub-sector, are given in table 9.3. Of the 26, only ten earn more than $3 million annually, and only two earn more than $10 million. The ten are: Chilanga Cement Ltd, Kafue Textiles (Z) Ltd, Lint Company of Zambia Ltd, Lonrho Cotton, National Tobacco Company Ltd, Reserved Minerals Corporation, Swarp Spinning Mills Ltd, Zambia Co-operative Federation, Zambia Emerald Industries Ltd, and Zambia Sugar Company Ltd. The two earning more than $10 million are ZAMEFA and Zimoil Division. ZAMEFA, it has been emphasised, is a special case, depending on copper for raw materials (as does Inshimbi Iron & Steel, also of Luanshya).

ZAMEFA accounts for close to one third of all visible exports. Once the copper crunch comes, it will become import-dependent (importing copper from, perhaps, Zaire or Chile) and then all kinds of operational problems will surface.

Secondly, in all the nine leading NTE-sectors (appendix 9.1) accounting individually for at least 4 percent of total 1987-91 exports, growth in export sales peaked in 1988— when copper prices rose and, accompanied by good rains and a bumper agricultural harvest, led to improved manufacturing output. Because Zambia has been drought prone in recent years, it is difficult to imagine agro-dependent export levels being maintained at high and increasing levels.

The Bank of Zambia (1989: p3) reports that real GDP rose by 6.7 percent in 1988 due principally to favourable agricultural performance— which itself was attributed to excellent weather conditions, increases in producer prices, and timely payments and provision of inputs to farmers. The spill-over effects of high copper prices also enabled better manufacturing output in that year, as more forex was made available to import inputs. Thirdly we have to recognise that the grand total for all exports for the 5 years 1987-91 of $422 million (appendix 9.1) is only 40 percent of current annual copper export earnings.

At the above rate, it will take a lot of effort for manufacturing/visible exports alone to replace copper by the year 2000 or even 2010. Simply

replacing copper, we have already emphasised, is only a necessary condition. It is not sufficient because the ultimate goal is economic recovery and growth, not bare survival. If we assume conservatively that for economic recovery Zambia will need an extra forex revenue base equivalent to the average of its deficits in the BOP for 1991, 1992 and 1993, that is $500 million[4] over and beyond replacing copper, then clearly the scope of Zambia's adjustment task, given the country's poor forex earning record during the SAP decade, assumes onerous dimensions.

Another weakness of the export sector which was confirmed by both our survey and the Export Board of Zambia (1992) is that most of the new entrants tend to export on a one-off consignment or irregular basis— only when they have sufficient supplies of raw materials available. They therefore are not able to service a market regularly, let alone build a firm market share.

Finally we have to consider the 89 percent home-market orientation of the manufacturing sector, since exports account for about 11 percent of total output as mentioned earlier. This is reason enough why foreign exchange—amid import-dependence— continues to be the number one problem as firms do not export much of their output to earn enough of it to import inputs. We saw in the case of Swarp Spinning Mills Ltd (SSML) in chapter 8 that it exports between 60-65 percent of its total output, operates at between 90-97 percent of capacity, and earns between $5 to $6 million annually. It is one of the best five exporting firms and does not seem to be experiencing too many problems. *The major problem, for Zambia, is that there aren't too many SSML-type success stories. Yet that is what the country clearly needs now, more than ever before.*

(b) **Nature of major current export markets:** this has already been discussed. Suffice to mention, at this stage, that under current World Bank and IMF (Bank-Fund) SAPs Zambia is only one of many programme countries being encouraged (sometimes forced) to assume an out-ward looking strategy. For most of Sub-Saharan Africa the major export products (primary agricultural and mineral products) and markets outside Africa are— for economic and historical reasons— identical to Zambia's.

If most of them succeed in increasing exports to Western markets— even assuming successive relaxation of protectionist tendencies there— there is the ominous possibility that the resulting surge of both primary and manufactured exports could cause a glut on those markets. This would lead either to too low prices and losses from exports, or the re-imposition of import-barriers in these countries to protect their own local industries from cheap third world imports.

Another problem is the identity/similarity of SAP programmes in SSA. Most of these countries pursue similar adjustment programmes and face the same Bank and Fund conditionalities. As part of SAP they all aim to reduce imports. We saw in this chapter how Zambia's exports to Zimbabwe were reduced because, as part of its own SAP, Zimbabwe had to reduce its imports in line with its own tight forex situation. This amounted to a loss of export earnings for Zambia. This is one of the conflicts with regard to the macro-goals of Bank-Fund structural adjustment programmes, and does apply to PTA countries generally.

Table 9.4: Zambia's 9 leading NTE-sectors and their capacity utilisation rate changes, 1990-91.

SECTOR POSITION	CAPACITY UTILISATION (%) 1990	1991	DECLINE (%)	DECLINE POSITIONS
1 Engineering Products	64	24	40	2
2 Primary Agric Commod	79	36	43	1
3 Petroleum Oils	na	na	na	
4 Semi-Precious Stones	na	40	na	
5 Textiles	55	48	7	6
6 Processed Foods	na	35	na	
7 Chemical Products	61	37	24	4
8 Horticultural Products	65	28	37	3
9 Building Materials	47	32	15	5
Average	**62%**	**35%**	**27%**	

SOURCE: EBZ (1990-1992), LAST 2 COLUMNS ARE CALCULATED HERE

(c) **Capacity utilisation:** the sector's forex bottle-necks and dependence on imports and how these in turn affect capacity utilisation rates were discussed in chapters 7 and 8. In table 9.4 we demonstrate how the nine leading exporting sub-sectors experienced capacity utilisation declines of as high as 27 percent on average between 1990 and 1991, dropping from 62 percent in 1990 to 35 percent in 1991.

The top two sub-sectors— primary agricultural commodities and engineering products— experienced the worst declines of 43 and 40 percent respectively. Import dependence— which averaged 60 percent between 1988 and 1991— is a structural problem which has affected capacity utilisation rates. It is impossible for anyone to assume that this long-standing, long-term structural rigidity will be corrected by the year 2000, let alone 2010.

The capacity of Zambian firms to produce internationally competitive goods is also fundamentally impeded by the obsolescence of their plant and machinery (EBZ 1990: p22), relative difficulty in procuring the latest high-technology machinery, lack of proper quality controls, and poor to absent marketing strategy.

We have no reason to believe that the major structural bottle-necks identified earlier— especially import-dependence and forex unavailability— will be fundamentally corrected by the year 2000 to bring about a dramatic change to this picture.

(d) **Limited borrowing capacity:** if the sector's capacity utilisation rate (1991) is around 34 percent, this points to excess capacity of some 66-70 percent. Under normal circumstances this would provide opportunities to expand production without additional investment in capacity. In order to increase capacity utilisation, however, most of the sector needs to borrow from outside— because it does not have adequate inside funds— and herein lies the major problem. First, borrowing rates of 70 percent due to interest rate liberalisation under SAP are already beyond the reach of most firms. Our sample in chapter 7 ranked high interest rates as the second most difficult problem facing the sector after that of forex shortages.

More importantly, we saw in chapter 7 that the sector already has relatively high levels of debt— the average debt ratio between 1983 and 1990 was calculated at 58 percent. This means more funds are already being provided by outsiders, whose decisions as to further credit extension hinge on current loan portfolios on the part of the sector. The

implication is that the sector has little borrowing flexibility, it does not possess much borrowing power to tap for expansion purposes.

It could be argued that the sector could perhaps handle more debt if it was not import-dependent for raw materials. This dependence, however, means that earnings are vulnerable to forex availability— which the sector does not possess— and that earnings are therefore not stable. Another problem for the sector is that even if the debt ratios were low— implying unused borrowing power that could be tapped for expansion purposes— Zambian banks are increasingly more interested in short-term lending to traders, who have short pay-back periods, than to long-term investors because of uncertainty about the current inflationary economic conditions.

(e) **Impact of 1992 trade-liberalisation:** to all the above problems has to be added the likely impact of trade liberalisation on local manufacturing as discussed in chapters 7 and 8. Competition due to trade liberalisation under the SAP was ranked as the fifth most pressing problem facing Zambian manufacturers. This ranking is expected to have risen dramatically in the period since our May 1992 field research in Zambia. This is because the MMD government has since introduced wider trade liberalisation measures— including floating exchange rates, further decontrol of internal prices, and removal of import restrictions. We discussed what we termed the "South African factor" in chapter 7, highlighting the early concerns of the manufacturing sector with import liberalisation. As competition on the home market intensifies due to import liberalisation, local market share is likely to be lost and, given the current 89 percent home-market orientation, this will further dampen capacity utilisation rates and consequently profitability through multiplier effects.

9.5 Chapter Conclusions

In the end, our study had to answer by far the most significant and urgent question in Zambia's adjustment efforts: is the non-traditional, non-copper export sector able to replace copper, whose demise is being

widely predicted? If so, when? Chapter 9 has been an attempt at providing insights into this question.

Whereas some authors may prefer to address the above question only in terms of manufactured exports, in Zambia's case the distinction between primary commodity-based export expansion and manufactured exports is for all intents and purposes irrelevant: in the country's urgent need to find export replacements for copper, primary commodities and manufactured exports are equally important because, to put it plainly, the country does not now or in the foreseeable future enjoy the luxury of choosing what exports it prefers. In any case as Stewart, Lall and Wangwe (1992: p30) point out, Zambia's structure of exports— as with other SSA economies— is predominantly primary-product based. In 1987, they indicate that Zambia's exports were 97 percent primary-product based, with 3 percent in manufactures. These figures are lower (in manufactured exports) than those for all low-income African economies[5]— which in 1987 had 6 percent manufactured versus 94 percent primary exports— and also lower than for all middle-income African economies— 10 percent versus 90 percent, respectively, in 1987.

Visible non-traditional (primary commodities and manufactured) exports are found to have grown from $68.57 million in 1987 to $100.43 million in 1991. Two major problems have accompanied this growth: one copper-dependent SOE— ZAMEFA— dominates it, accounting for close to one third of all NTEs between 1987 and 1991. Secondly, a total of 26 firms dominate the NTE-sector, accounting for 89 percent of all NTEs. Furthermore, there has been no significant diversification in the destination of Zambia's exports, dominated by 7 nations— the United Kingdom and Germany (EC); and Malawi, Zaire, Zimbabwe, Tanzania and Burundi (PTA). The sector, therefore, is vulnerable to fluctuations in the economies of only a handful of foreign nations.

We calculated, among other things, that total non-traditional exports (visible and invisible) need to grow by an unprecedented 27 percent per year beginning in 1994 if NTEs are to replace copper by the year 2000. Visible (manufacturing) NTEs, on the other hand, need to grow by an

unprecedented 20 percent beginning in 1994 if it is to go only half-way towards replacing copper by the year 2000. These are very conservative estimates, given that at present the sector does not earn enough of its own foreign exchange to import raw materials. It still depends on copper.

Three other scenarios are identified, all of them also judged impossible to achieve because of various structural rigidities of the NTE sector identified in this chapter and in chapters 5, 6, 7 and 8.

First, the manufacturing sector still depends on imports for over 60 percent of its raw material needs. Given that forex is the major problem facing the sector as discussed in chapter 7, it is not surprising that capacity utilisation rates reached a low of 34 percent in 1991. Second, the forex bottle-neck itself is worsened by the fact that most firms export on average only 11 percent of their total output, indicating an 89 percent home-market orientation.

Wider trade liberalisation initiatives since the second half of 1992 will lead to more problems for companies competing predominantly on the local market. Competition from imports is likely to erode their local market share, in turn making it difficult for them to earn enough Kwacha to buy foreign exchange for importation of their raw materials. Other problems emanate from obsolescence of plant and machinery, and the fact that some firms only export once in a while because of raw material shortages and/or poor marketing strategy.

At the national level, growth in non-traditional exports will depend on the extent to which government can formulate clear, effective industrial policies and maintain enough stability in them for firms to be able to plan. Companies, for their part, will need to produce quality products and create effective marketing channels, both of which are structural problems which will take a long time to achieve.

In a nutshell, a lot of factors and sector rigidities leave very little room for optimism about the manufacturing sector's chances of replacing copper in export earnings either in the year 2000 or 2010.

In a two-chapter synthesis we give, beginning with chapter 10 next, a re-capitulation of the main story as we have told it since chapter 1. We summarise the main findings and conclusions of our study in chapter 10, before offering some recommendations for Zambia's economic and manufacturing transformation in chapter 11.

FOOTNOTES

1 Invisible forex earnings from such sources as energy and services (tourist lodges, hunting safaris, hotels and motels, and car hire firms) are not captured by EBZ audits due to the paucity of their resources— both human and financial. We are able to give a rough estimate of the value of invisible forex earnings, however, as the **residual** after sub-tracting visible exports from total mineral/copper earnings.

2 **The mushroom (Bowa) acid test of devaluation:** the popular joke in Zambia— if one wants to know the precise impact of devaluation— is that you have to check the pre-devaluation price of natural mushrooms against the post-devaluation one. Every time Kwacha devaluations occur, peasant people along inter-city highways— who pick mushrooms from the bush and sell them to motorists— automatically adjust their prices upwards. The reader will be aware that natural mushrooms involve no financial or human investment, except the possession of two legs to go into the bush and pick them up. Ask them why mushrooms of all things should cost more, and they will tell you "because the Kwacha has gone mad again!". And you cannot blame them. Every time a devaluation takes place, their instinctive reaction is "the former prices are useless". They do understand that Kwacha devaluations connote an erosion of purchasing power and they adjust prices upwards to earn more.

What the above little illustration is meant to emphasise is the inclination— every time the Kwacha is devalued— for people to automatically think the prices of whatever they are selling must go up, whether such increases are justified or not. This tendency, nation-wide, usually worsens inflation levels.

3 This author visited Copper Harvest Foods Ltd on 24 March 1992 in the company of Professor Charles Harvey from IDS, Sussex, and Mrs Carolyn Jenkins of the University of Natal who had both travelled to Zambia for the 21-23 March 1992 SAP conference. We interviewed the Managing Director, Mr Pat Puta, on various aspects of his firm's experience during the SAP period. Later, this author made a follow-up interview with the Executive Assistant to Mr Puta, Mr Oliver T Musanya.

4 Appendix 9.2 shows that Zambia's BOP experienced deficits of $230 million in 1991, $610 million in 1992, and an estimated $680 million for 1993— the average of which is about $500 million. Holding all other things constant, an extra $500 million from NTEs beyond the $1.1 billion needed to replace copper would ensure minimal BOP surpluses and, hopefully, a net in-ward transfer of forex resources.

5 Up to 1986 Zambia was classified as a low middle-income country. In 1987, for the first time, the World Development Report classified her as a low-income country (Seshamani 1987: p6).

CHAPTER 10: SYNTHESIS I : FINDINGS AND CONCLUSIONS

10.0 INTRODUCTION

As Zambia entered the 1980s with its economy continuing to weaken further at every turn, it eventually dawned on policy makers and implementers that the buoyant copper years of the previous decade and half may never be experienced again. Although the country had stand-by agreements with the IMF from as far back as 1973, there was still hope in the decade that followed that the copper-led problems were transitory. By 1983 these hopes could no longer be sustained as the country's growth engine— copper— assumed impossible-to-ignore sputtering levels. In-came the structural adjustment programme, SAP.

In current thinking, the general objectives of SAPs include: encouraging non-traditional exports (NTEs); reduction or elimination of balance of payments (BOP) deficits; switching production from non-tradables to tradables and, ultimately, resumption of higher rates of economic growth. By and large, these goals are premised on the fact that most Sub-Sahara African (SSA) economies have embraced SAPs from a position of low, declining, or negative economic growth; a small production and export base; great policy distortions; and general economic distress. On the eve of undertaking serious adjustment in 1983, Zambia was experiencing a macroeconomic crisis to which external and natural shocks substantially contributed.

Zambia's 1983-93 SAP, in addition to the above goals, was supposed to reduce levels of both inflation and unemployment. Improving efficiency in the traditional/copper sector has also been a major aim. At sector and sub-sector level it was supposed to increase capacity utilisation rates, increase out-ward orientation while reducing imports and import-dependence, and to diversify the destination of NTEs. Last but not least, the programme was aimed at increasing both inter-sectoral and intra-sectoral linkages.

This study has looked at the impact of Zambia's 1983-93 SAP on manufacturing sector business strategy. An empirical survey of 43

manufacturing firms in Zambia largely informs the micro aspect of the study, while the macro-level uses mostly secondary sources.

This chapter— and the next— synthesise the main arguments, findings and conclusions of the study. The conclusions and recommendations are classified according to the three main areas that the study has concerned itself with: Zambia's macro-economy— briefly, since this was aimed at outlining the nature of the country's structural adjustment programme; the impact of the programme on the micro-level/manufacturing sector— mainly, since this was not only the focus but also the main contribution of the study; and, of course, which way forward— since, arguably, this study was never meant to be an end in itself.

SUMMARY OF MAIN FINDINGS

10.1 At the macro or national level

10.1.1 **The riches to rags story**: the story that emerges is of a country that started the 1960s wealthy and with relatively few economic problems but entered the 1980s with chronic deterioration, literally, in all the standard measures of economic performance. A special Oxfam report on Zambia released in The Observer (7 March 1993)— hereafter referred to as the Oxfam report— describes Zambia as one of the richest countries in Sub-Saharan Africa thirty years ago. Today, the report says, it is among the world's poorest nations— with one of the highest per capita debts in the world, its copper devalued and depleted, its agriculture long neglected.

As Turok (1989: p211) points out, in the first decade of independence the Zambian economy grew at 13 percent per annum, fostering many illusions. Today's data is radically different. It is estimated that Zambia's GDP fell by -2.8 percent in 1992 due to the drought (Price Waterhouse 1993: p5)— when the government had budgeted for GDP growth of 2 percent.

Inspite of a few positive signs— such as in 1988 (Bank of Zambia 1989: p3)— copper prices have not stopped falling since 1975. Inflation has

risen from 13.9 percent on the eve of undertaking reforms (in 1982) to 225 percent a decade later. Per capita debt, estimated at $850 per Zambian in 1991, is reckoned to be one of the highest in the world. Formal sector employment in 1981 was 373,000 (Kamya 1990a: appendix II) when Zambia's population was 5.8 million (CSO, 1983). Ten years later (in 1990) formal employment was static at 376,950 but the country's population had risen by 2 million to 7.8 million (CSO 1989; Seshamani 1992). The special Oxfam report on Zambia (1993) puts Zambia's formal employment at just 350,000 in 1993, when the country's population is about 8.1 million.

Another indicator of general deterioration in African economies— urbanisation trends— shows that this has worsened in Zambia. Gulhati (1989: p30) says in 1964 Zambia's population was 66 percent rural, 34 percent urban. In 1980 this had changed to 52 percent rural and 48 percent urban. At the start of the 1990s, Zambia's population was 53 percent urban, 47 percent rural. As the World Bank (1989d) notes, such a population rise has an important bearing on the provision of social infrastructural support, as it implies significantly greater demands for the provision of basic education and health services. Given too that agriculture provides the livelihood for the majority of Africa's population, these urbanisation trends in Zambia's case point to fast deterioration in urban unemployment.

Put more graphically, imagine a situation where Dr K D Kaunda— the former President— told the Zambian people to tighten their belts every year of his 27-year old rule. By the time of his defeat in October 1991, the people no longer had much waist left to tie. In his special report on Zambia, Mike Hall (see The Guardian, 2 April 1993: p16) aptly sums up recent developments in Zambia this way:

"... the impact of reform, exacerbated by the drought, has been far-reaching. The cost of living has skyrocketed. And in the populous urban areas, where unemployment is rampant, many families have been plunged deeper into poverty. Firms have contracted, unemployment has increased. The ranks of the informal sector are swelling, and crime is on the increase".

The only notable achievement Zambia can be proud of is its democracy which, rightly, many observers refer to as a model for the rest of Africa. But even this is already proving fragile, as evident from the early March 1993 re-imposition of the state of emergency after the 15-month old government reported an attempt to overthrow it by unlawful means— under a plan commonly known in Zambia as "The Zero Option". Hall (ibid: p16) reports that donors are not happy with the re-imposition of the state of emergency. He quotes the Dutch ambassador to Zambia as having told President Chiluba at a State House meeting in early March 1993:

"Our governments are concerned about the state of emergency, which is viewed as an unfortunate development".

News From Zambia (4-21 March 1993) goes further to quote the Dutch ambassador as having told the President that the donor nations are disappointed by Zambia's failure to cut military expenditure, failure of leaders to share austerity, and the failure to reduce inflation and reverse the decline in social and economic infrastructure.

10.1.2 **Myriad causes of the structural crisis: the fundamental causes of Zambia's structural crisis are found to be quite diverse and complex, prompting this author to advise extreme caution about any simple diagnoses and prescriptions with regard to the nation's economy.**

Some causes are deeply rooted in history— as with the mono-cultural/copper-dependent, primary-export-led economy Britain bequeathed to Zambia in 1964; some lie in nature— as with the proneness to drought in recent years; some lie in the external economic environment— as with the oil shocks of the seventies that led to a mounting oil import bill, and the protectionist trade policies of the developed West; some lie in wrong domestic policies— as with the anti-rural bias evident from the lack of support for agricultural development through improper pricing and other incentive policies; and a variety of burdensome GRZ interventions in commerce, trade and industry with little or no public benefit.

Yet other causes are due to bad luck— as with falling terms of trade. Some causes are direct results or exacerbations of the 1983-93 SAP— as with the many devaluations of the Kwacha which, instead of inducing the required supply response from non-traditional exports, has let inflation loose. And finally in the case of Zambia there has of course been the tendency towards SAP U-turns— as with the 1987 break with the IMF.

10.1.3 **The 4-D Syndrome:** the study has diagnosed the Zambian economy as being afflicted by, inter alia, 4 major problems we have termed the 4-D Syndrome— Debt, Drought, Disease, and Dependence on primary exports and imported raw materials. Debt— at $6.5 billion in September 1992, down from $7.15 billion nine months earlier thanks largely to debt cancellations— is still one of the highest debts per capita in the world. Disease, from Aids to malnutrition and other famine-related diseases, has also taken its toll.

A UN report (see News From Zambia, 23 November-11 December 1992) says Africa's AIDS epidemic has particularly affected two groups— better-off men and poor women— and by undermining household incomes among the poor and the professional classes may further slow already low economic growth. Our manufacturing survey found that AIDs already threatens the sector with problems of falling efficiency and productivity due to disability, rising sick leave and time taken off work to care for others. Malaria, malnutrition, and cholera are three other most prevalent diseases in the country. Dependence on imported raw materials— discussed later in this chapter— has remained high and static, making the economy particularly vulnerable to foreign exchange availability.

10.1.4 **Adjustment without a human face:** while poor GRZ policies of the past may have initiated the deterioration in the condition of the poor, the nature and timing of some aspects of Bank and Fund conditionality, such as devaluation, cuts in food subsidies and privatisation of SOEs has clearly exacerbated it. The infamous IMF-riots of 1987 attest to this. We shall return to the social costs of adjustment in chapter 11.

10.1.5 **Kaunda did listen:** former President Dr Kenneth D Kaunda is usually portrayed in academic and professional circles as being dis-

inclined to professional advice during his Presidency, including on the direction of the economic recovery programme, ERP. He is depicted, in fact, as having been a "one-man economic team". This author has uncovered new evidence which suggests Kaunda did actually seek, and listen to, professional advice with regard to the economy. The May 1987 break with the IMF is a case in point. Concerned at the deteriorating economic situation in the country Kaunda—in a hitherto un-disclosed development— in early 1987 appointed a **Top-Secret 25-man Committee**[1] **of experts** to study and analyse the performance of the economy and make recommendations to him on how to improve its performance and operational efficiency. On the Committee— chaired by the nation's top civil servant, the Secretary to the Cabinet (see Top Secret Report 1987)— were senior representatives of the Ministries of Finance, Commerce and Industry; 3 University of Zambia (UNZA) Lecturers, 8 PhD holders (a third of the committee); the Chairman and Chief Executive of ZCCM[2]; and the BOZ Governor, to name but a few. The Committee first met on 31st March 1987, in May 1987 the country aborted the IMF programme on the Committee's specific and unambiguous recommendation.

The Committee recommended, and got implemented, a moratorium on all external debts. External debt service was limited to 10 percent of forex earnings. It is significant to note that the committee was fully aware of the obvious implications of this, that is the consequent break with the Fund. It also recommended, and got implemented in 1987, the formation of the Export/Import Bank (EXIM Bank) whose major objective was to facilitate the export of non-traditional products.

10.1.6 **Contradictory effects of SAP measures— conflict between IMF demand-management versus World Bank supply-response measures:** Killick (1992a: p8) makes the useful point that the demand-management approach of the Fund and the supply-orientation of Bank SAPs are not always easy to reconcile. There is the danger, he argues, that Fund-type programmes which envisage large reductions in imports will erode export supply responses, to say nothing of the costs imposed by way of foregone output.

Our evidence in chapters 5, 7, 8 and 9 is that SAP has had contradictory effects in Zambia. While market reforms have tended to eliminate price distortions, for example, devaluations of the Kwacha have been "popular" not for their success in boosting non-traditional exports as intended, but rather for fuelling galloping inflation. It has led to rising input costs in a manufacturing sector still largely (over 60 percent) dependent on imported spares and raw materials. To provide a glimpse of the magnitude of the problem, one has to look at the fact that the Kwacha dropped to K522 = $1 as the first quarter of 1993 came to a close (The Weekly Post, 19-25 March 1993: p7)— quite a decline from the K125 = $1 exchange rate barely 12 months earlier. Zambian imports of spare parts, oil and intermediate goods are essentials that have not been reduced by devaluations without seriously affecting domestic industrial capacities. We argued in chapter 7 that the SAP period has witnessed a vicious circle: where Kwacha devaluations have pushed up the domestic cost of imported inputs, leading to low capacity utilisation rates, which has in turn stifled exports.

The reality of the situation, in recent years, has been the tendency for devaluation to increase Kwacha receipts for the mining industry. This, combined with other factors such as demands for wage increases by the public sector and especially the Mine Workers' Union of Zambia (MUZ), has tended to push up the amount of Kwacha and consequently inflation in the local economy.

Secondly, cuts in maize meal subsidies, aimed at reducing the government budget deficit, have led to increases in food prices beyond the reach of the poor. More significantly, perhaps, in December 1986 increases in the price of maize led to IMF-riots resulting in a number of deaths.

10.2 At the micro-level

10.2.1 **Blow-hot, blow-cold GRZ attitude towards the private sector:** we saw in chapter 6 that Kaunda's relations with private enterprise in Zambia were characterised not by permanent cordiality, but rather by mutual distrust and unease. Kaunda (1969: p51) was particularly

concerned with what he called:

"..our friends who have kept only one foot in Zambia in order to take advantage of the economic boom, the other in South Africa, Europe, India or wherever they come from, ready to jump when they have made enough money, or when they think that the country no longer suits them".

And so it was that when devaluation and price de-control were tried and the social costs quickly surfaced, private enterprise featured prominently on Kaunda's blame-list. The take-over of private milling companies after the 1986 IMF-riots goes a long way to exemplify this. Private enterprise, on its part, was continuously incensed by what it saw as Kaunda's blow-hot, blow-cold attitude towards it. The atmosphere, in short, was far from being one of mutual trust, and it can be argued that private enterprise could not therefore function properly.

10.2.2 **Forex shortages and import-dependence:** the adjustment programme was supposed to help reduce import dependence and increase the so-called supply-response on the export front. **Neither has happened.**

Import-dependence is found to have dropped marginally from 64 percent in 1981— according to Seshamani (1987: p13) to 60 percent in 1991— according to our survey results in chapter 7. But given that inflation has been galloping from a low of 18.1 percent in 1981 to 225 percent in 1992, import dependence may actually have increased in real cost terms. From our survey data, it was not possible to ascertain this. Our empirical study also finds that of the 43 firms examined, the 33 most import-dependent (that is 77 percent of the firms) imported 79 percent of their raw materials in 1988, dropping marginally to 76 percent in 1991. And as we saw in chapter 7, Seshamani (1987) points out that even these levels of dependence are in fact biased downwards to the extent that domestically purchased inputs themselves by and large contain imported inputs as well.

The age of a firm— whether established before Zambia's independence in 1964; between 1964-82; or during the first decade at structural

adjustment (1983-1993)— was found in chapter 7 not to be a factor with regard to import dependence. Differences were found, however, based on type of ownership and type of manufacturing sub-sector.

Parastatal firms were found to be the least import dependent, importing on average 49 percent of their raw materials between 1988 and 1991. Multinational companies and private firms, on the other hand, show equal import dependence of between 66 and 68 percent between 1988 and 1991. The main reason for the lower average import dependence among parastatal companies was found to be the fact that the agro-based sub-sector— which has a majority of the parastatal firms in our sample— is the least import-dependent sub-sector overall. The agro-based sub-sector only imports 28 percent of its raw materials because of its strong back-ward linkages to local agriculture. Another reason— provided by Harvey (1993)— is that this may simply be the result of sample bias: some parastatal companies— such as Metal Fabricators of Zambia (ZAMEFA) and Kafue Textiles— may have been created to process local raw materials, while the same may not necessarily be true of multinational and private companies.

Only two— the agro-based and textiles sub-sectors— are found to import less than 50 percent of their raw material requirements: importing on average 28 and 45 percent respectively between 1988 and 1991. Meier, Steel and Carroll (1989: p65) made the same observation, concluding that the food, textile and footwear industries were the only sectors in Zambia importing less than 50 percent of their intermediate requirements. The metal and machinery sub-sector is found to be the most import-dependent, importing on average 83 percent of its raw materials between 1988 and 1991. The 83 percent import dependence in the metal and machinery sub-sector compares with 81 percent found by Meier, Steel and Carroll (1989: p65). It is followed by the chemicals and petroleum sub-sector (75 percent); the healthcare sub-sector (69 percent); and the wood and paper products sub-sector (63 percent).

Import dependence in Zambia was inspired by the nature of the import-substitution industrialisation (ISI) strategy pursued when copper export

revenues were still high after independence. It was also due to the absence— through nature or, where present, through lack of exploitation— of local resources. Our sample in chapter 7 cited several reasons that have led to continued dependence on imported raw materials. The majority of our respondents— 67 percent— indicated that despite Kwacha devaluations which have made imports more expensive in Kwacha terms, they have not reduced import levels because there are no local substitutes. 58 percent of our respondents indicated that when raw materials are available locally, they are either of poor quality (30 percent) or too expensive in comparison to imports (28 percent). 44 percent of the firms interviewed said that because they depend on Western technology, materials that go with those technologies have to be imported.

The manufacturing sector is therefore still largely raw material import-dependent, making capacity utilisation particularly vulnerable to fluctuations in forex availability. This is consistent with Karmiloff's (1988) assertion that the extent of enterprise import dependence within the context of a tight foreign exchange constraint directly determines the level of capacity utilisation. Killick (1990b: p30) agrees, pointing out that shortages of foreign exchange in African economies have contributed directly to industrial stagnation, because of industry's dependence on imported supplies.

10.2.3 **Capacity utilisation rates:** average capacity utilisation rates in the manufacturing sector declined from 65 percent in 1985 (UNIDO 1988: p3) to 57 percent in 1990 and nose-dived to 34 percent in 1991 (EBZ, 1990-1992) as forex bottle-necks worsened. This performance contrasts sharply with capacity utilisation rates of over 70 percent in 1974-75 (Steel and Evans 1984: p54) when copper-generated foreign exchange was readily available for companies to purchase and import inputs.

The most crucial constraint of the sector is found to be lack of foreign exchange to import raw materials and spare parts on which the sector depends. But as Steel and Evans (1984: p55) point out, the persistence of capacity underutilisation in SSA suggests that the shortage of foreign

exchange is not the fundamental problem. The fundamental problem is dependence on imported rather than domestically produced inputs. 67 percent of our sample in chapter 7 ranked forex shortages as the number one problem out of nine major problems that the manufacturing sector has faced during the adjustment period. In all, 86 percent of our sample gave forex bottle-necks a ranking of either 1, 2 or 3. High borrowing rates (70 percent as of the end of 1992) emerged as the second most serious problem during the adjustment period. This is despite the fact that rates of inflation have been higher than commercial bank lending rates, resulting in negative real interest rates.

Our sample claimed that interest rates have reached "distress levels", that they simply do not have the money to pay back once they get loans because overall demand for goods and services is weak due to the deteriorating purchasing power of Zambians— coupled with rises in production costs due to imported inflation. They have not been able to increase local prices to the level of imported inflation. In other words, if a company spent K300 to purchase each £1 for imports in May 1992, this had by the beginning of 1993 gone up to K600 because of the weakening Kwacha. Meanwhile, such a firm has not been able to increase the local price of its products by the same margin, because nobody would otherwise buy them.

Other problems— with their rankings in brackets— were given by our sample as: economic policy instability (3rd); unreliable local transport (4th); increased competition due to trade liberalisation (5th); lack of knowledge about foreign markets (6th); and inadequate local management talent (7th). Only multinational companies cited inability to remit dividends and royalty payments as a major problem, giving it an average ranking of 4 overall.

10.2.4 **The crux of Zambia's adjustment task— boosting non-traditional exports:** by far the most vital object of Zambia's SAP has been the desire to increase NTEs to a level where the sector is not only forex self-sufficient but, more significantly, makes it ready to replace copper by the year 2000— when most copper reserves are expected to be

depleted (Fardi 1991: p347, Harvey 1991: p146). This, unfortunately, has not happened, and is not likely to happen by the turn of the century. Here is why.

The number of non-traditional exporters is found to have increased from 78 in 1988 to 114 in 1991 and an estimated 120 in 1992. Total non-traditional exports also grew from $68.57 million in 1987 to $100.43 million in 1991. These are very small absolute amounts[3]. Meier, Steel and Carroll (1989: p65) also argue that although Zambia's industrial sector is relatively large and advanced compared with that of other African countries, its manufactured exports are exceptionally small.

We identified several problems pertaining to non-traditional exports. First, one SOE-exporter— technically a traditional exporter because it depends on copper and has exported for a sufficiently long period of more than 15 years— dominates non-traditional exports. Metal Fabricators of Zambia (ZAMEFA) accounts for close to one third of all NTE-earnings between 1987 and 1991. Secondly, only 23 firms dominate the NTE-sector. They are the only ones exporting more than $1 million worth of products each per annum. Of these, only 10 earn more than $3 million each. The 23 firms— who include ZAMEFA— accounted for 88 percent of all earnings in 1987, 89 percent in 1988, 91 percent in 1989, 87 percent in 1990 and 88 percent in 1991. Any detraction from the performance or competitiveness of the 23 firms automatically leads to an adverse impact on Zambia's total NTE-earnings. Only two firms, ZAMEFA and Zimoil Division, earn more than $10 million annually.

Thirdly, the sector depends on copper-generated foreign exchange for importation of raw materials. In the 8 months between July 1987 and March 1988, for example, the manufacturing sector was FEMAC-allocated a total of $165 million for importing raw materials (GRZ 1988a: p13)— that is an average monthly allocation of $20.6 million. But in the 12 months between 1987 and 1988 the sector only earned $77.3 million from exports (table 9.1 in chapter 9)— on average earning only $6.4 million per month. Though our data is only for one year, what this means is that the sector needs on average 3.2 dollars from copper for importation of inputs that

will only generate one dollar in subsequent export earnings. Once copper revenues dry up, the implications for manufacturing will be devastating.

The fourth problem is that in all 9 leading NTE-sectors given in appendix 7.2 accounting individually for at least 4 percent of total 1987-1991 exports, growth is found to have peaked in 1988— when copper prices rose and, accompanied by good rains and a bumper agricultural harvest, led to improved manufacturing output (Bank of Zambia 1989: p3). In chapter 9 we demonstrated that percentage growth in all 9 sectors has been on a declining trend ever since. Finally, Zambia's adjustment predicament can also be illustrated from the fact that the grand total of all non-traditional exports for the 5 years 1987-91 of $422 million is only 40 percent of current annual copper export earnings. **At this rate, it will take a lot of effort for visible exports to replace copper by the year 2000 or even 2010— when most copper deposits are forecast to be depleted.** And simply replacing copper, we emphasised in chapter 9, is only a necessary condition. It is not sufficient because the ultimate goal is economic recovery and growth, not bare survival. The scope of Zambia's adjustment task, given the country's poor export earnings record during the SAP decade, assumes onerous dimensions.

In the area of expanding both the visible and invisible NTE-base, this author finds and calculates precise targets and deadlines that have to be aimed for— a major departure from most previous studies which have only provided general perspectives such as "there is need to increase non-traditional exports" without indicating any targets. Zambia ought to aim for the following targets:

(a) An unprecedented 27 percent per year growth in the total of visible (manufacturing) exports and invisible exports (energy, services and tourism) as of 1994 for NTEs to replace copper— whose annual earnings are no more than $1.1 billion— by the year 2000. Otherwise, at the current growth rate of 10 percent in total NTEs it will be another 17 years (in 2010) before total NTEs can replace copper in export earnings holding, of course, all other factors constant.

(b) Visible NTEs should grow by 20 percent a year as of 1994 if the manufacturing sector alone is to grow **half-way** towards replacing copper by the year 2000. Otherwise, at the current rate of 120 non-traditional exporters, $125 million annual exports and 10 percent annual growth, it will be another 17 years (2010) before manufacturing **alone** can grow just **half-way** towards replacing copper. The preferred scenario— of having manufactured exports replace copper in 7 years (by the turn of the century) is simply not realistic, given the many structural rigidities of the sector already discussed.

(c) If the manufacturing sector **alone** is to replace copper by 2010, then either of two things have to happen. Either:

(i) The **number** of non-traditional exporters with average yearly earnings of over $700,000 needs to rise from the 1992 estimate of 120 to 1,935 companies by the year 2009— an incredible 1,554 percent rise, or

(ii) The **number** of visible NTEs needs to **double** to 240 by 1994 **and** then grow by 15 percent in export earnings per year.

10.2.5 **Weak inter-sectoral and intra-sectoral linkages:** given the sector's continuing high levels of import dependence, it is not surprising that local inter-sectoral and intra-sectoral linkages are bound to be weak because firms buy the bulk of raw materials from outside and not from within. This view is supported by Killick (1990b: p7). Commenting on rigidities in the transformation of African manufacturing, he argues that:

"Heavy dependence on imported raw materials, equipment and skills severely limits (manufacturing) linkages with the rest of the economy, and the potential contribution of manufacturing to the balance of payments".

10.2.6 **Employment and financial performances:** we used our survey data in chapter 7 to examine some commonly held views regarding the comparative performance of parastatal companies, multinational companies, and private firms. We examined such questions as: Are state-owned firms over-staffed— that is do they employ more people on average than MNCs and private firms? Do MNCs and private companies in Zambia make more profits than SOEs?

Our results support the commonly held view that parastatal firms employ more people, on average, than other types of firms. They are found to employ 587 people per company, on average, as against only 145 for MNCs and 196 for private firms. This is not surprising, given that SOEs are usually pressured by the government to increase employment— beyond what may be optimal— as part of their employment objective.

With regard to sales, we found that between 1983 and 1989 SOEs generated more revenue, on average, than either MNCs or private firms. In 1989 SOEs and MNCs generated more or less the same sales revenue: K115 million for SOEs, against K111 million for MNCs on average. In 1990, MNCs generated K237 million on average compared with K221 million for SOEs. Private firms, on the other hand, were a distant third throughout the period— at K89 million in 1989 and K106 million in 1990. When profits were examined, however, the picture was radically different.

On average, a multinational company is found to have made twice as much profit as a parastatal company in all the years between 1986 and 1990: MNCs earned, on average, K10 million in 1986; K14 million in 1987; K26 million in 1989; and K64 million in 1990. SOEs, on the other hand, earned on average K4 million in 1986; K3 million in 1987; K12 million in 1989; and K33 million in 1990. Private firms, again, were a distant third, earning K2 million in 1986; K2.5 million in 1987; K5 million in 1989; and K9 million in 1990. In trying to account for these different results, we advanced the following possible explanations:

(i) Over-manning and inefficiencies in the parastatal sector were proposed to explain the lower profit levels among SOEs compared with MNCs. Tables 7.8 and 7.9 in chapter 7 show that SOEs had 4 times as many employees as MNCs and twice as many as private companies per unit of sales between 1983 and 1990. Profits per capita averaged only K15,000 per year among SOEs, against K134,000 and K17,000 respectively for MNCs and private companies.

(ii) More competition in the private sector compared to SOEs. Parastatal firms in Zambia have mostly operated in businesses where they

have enjoyed monopoly or duopoly positions, whereas in the private sector competition is likely to be more intense.

10.2.7 **Liquidity:** we examined financial statements from 30 of the 43 manufacturing companies in our sample to assess whether the sector has been liquid— that is able to use current assets to pay current liabilities. The current ratio, found to have averaged 1.75 times between 1983 and 1990, was found to give the wrong first impression— that the sector had no liquidity problems. Further examination of financial statements revealed this to be false. Here is why.

The average collection of accounts receivables (in days) has actually been worsening from 2 months in 1983 to 4 months in 1990, thereby increasing chances of bad debts. More importantly, the bulk of the sector's current assets are found to be tied up in both receivables and inventory. We found that cash— the most liquid current asset— has consistently dropped as a percentage of total current assets: from 13 percent in 1983 to 5 percent in 1990. In 1983 inventory accounted for 55 percent of current assets, rising to 57 percent in 1990. Accounts receivable, on the other hand, rose from 32 percent in 1983 to 38 percent in 1990. The sector's liquidity has therefore deteriorated during the period.

Even the quick ratio, which is a stricter test of liquidity than the current ratio because it eliminates the least liquid current asset— inventory— is found to have worsened for all sub-sectors from 72 percent in 1983 to 53 percent in 1990. This means that the most liquid assets of cash and accounts receivables have been dropping consistently, increasing dependency on inventory to liquidate short-term debt.

10.2.8 **The 3CI+WIF Syndrome:** at the micro level the study has termed the major problems of the manufacturing sector as the 3CI+WIF Syndrome standing for, respectively: consumer demand (sluggish due to worsening purchasing power), the credit squeeze, capacity underutilisation, interest rates (high, thereby putting bank credit out of the reach of many manufacturers), working capital woes, inflationary trends (225 percent at time of going to press), and foreign exchange shortages. These have

been either direct results or exacerbations of the 1983-1993 structural adjustment programme. Devaluation, for example, has hurt the imported-raw-materials-dependent firms. More significantly, it has in a vital number of cases discouraged local expansion when its timing (which has always touched the nerve of the manufacturing sector) has been such as to disrupt on-going expansion plans, most of which have had to be sent back to the drawing board for scaling down or to be completely jettisoned.

Next, the study finds that the temptation to assume that all sub-sectors of Zambia's manufacturing sector have performed poorly and faced similar problems under SAP must be resisted. The 1983-93 SAP, despite its numerous short-comings, has had the kind of impact on Zambian manufacturing that we further elaborate in sections 10.2.8 and 10.2.9 below.

10.2.9 **Positive effects of Zambia's SAP**

(a) **Wider access to forex:** liberalisation of foreign exchange policy under the MMD government has included the 100 percent forex retention scheme and the opening of bureau de change. This has improved chances for firms such as Colgate-Palmolive (Z) Ltd with a lot of Kwacha cover to get forex more quickly, albeit more expensively, than before. The liberal policy has eliminated a number of previous dis-incentives to exporting and most of the massive windfall gains that accrued to those having preferential access to the forex allocation process— under both the Foreign Exchange Management Committee (FEMAC) and Bank of Zambia (BOZ) forex allocation methods as seen in chapter 5.

(b) **Mushrooming of indigenous commercial banks:** of the nation's 15 commercial banks, half (8) have emerged during the adjustment period. Indo-Zambia Bank (1984), Meridien Bank (1984), African Commercial Bank (1985), Lima Bank (1987), Export Import Bank (1987), Capital Bank (1988), Finance Bank (1988), and Manifold Investment Bank (1988) are all likely to increase the alternative sources of venture capital, and enhance chances that a stock exchange could be established in the foreseeable future.

10.2.10 **Swimming above troubled waters: which types of firms, then, stand to gain or lose the most from Zambia's SAP, based on current evidence?**

In our view, the following types of companies are likely to benefit the most from the programme:

(a) **Exporting manufacturers:** the new 100 percent forex retention scheme allows exporting firms to retain all their forex earnings and either to use it for their own needs or to sell it to others at a freely negotiable exchange rate. Those who earn significant amounts of forex— and can therefore pay more regularly for inputs (local or imported)— may be able to increase their capacity utilisation rates.

(b) **Firms that are intensive in the use of locally available inputs (including skilled labour):** these also stand to gain, especially if they are also exporting. We saw in chapter 7 that the only two sub-sectors with import-dependence below 50 percent— the agro-based sector (28 percent) and the textiles sub-sector (38 percent) tend to do well during good rainfall years. Combined exports from the agro-based sector, for example, rose from $12.97 million in 1987 to $28.7 million in 1991 due to a combination of good weather, better average agricultural commodity prices and the more liberal economic regime that saw the un-banning of certain agro-based exports.

(c) **Small-scale firms:** to the extent that previous government policies restricted their access to resources and markets— through licensing systems, for instance— and that the new policies favour growth of agricultural incomes and hence demand for their products. Even import-dependent small-scale firms who lacked official access to forex under both FEMAC and BOZ allocations due to lack of clout— and had to pay black-market rates— may increase their use of imports under trade liberalisation. Small, domestic-resource-intensive producers may gain from improved access to complementary imported inputs and adaptability to new market niches created by devaluation (Hettige, Steel and Wayem 1991: p8).

(d) **Competitive firms that are attuned to minimising costs and actively marketing their products** (ibid)— such as Swarp Spinning Mills Limited of Ndola who have also invested heavily in additional capacity stand to improve overall performance. Firms set up in the last decade or so— such as Mukuba Textiles and SSML of Ndola— and use modern technology which enables the production of quality products stand to perform better against liberalisation-inspired competition.

(e) **Last, but not least, multinationals— such as Colgate-Palmolive Zambia Ltd in chapter 8— are also most likely to gain, not least from the liberalised forex system.** Previously, repatriation of dividends and royalties was impossible in some cases, difficult in others. Those who repatriated anything did so mostly through transfer pricing. This was done by overpricing imports from abroad and/or under-pricing exports. Most of the MNCs who had their dividend and royalty remittances blocked in the Bank of Zambia pipe-line for years will seize the chance of a more liberal forex regime to start un-blocking remittances.

In the category of firms likely to lose the most, conversely, the following could feature prominently:

(a) Those import-dependent firms that had access to imported inputs at the over-valued Kwacha and survived through preferred access to forex and therefore imported inputs, such as the case of Monarch (Z) Ltd in chapter 8, will find that buying forex from their exporting colleagues at the retention/market rate is costly. Holding all other things constant, this category— mostly parastatals— may suffer the most.

(b) Those previously tariff and non-tariff over-protected firms— such as much of INDECO— are likely to be adversely affected by higher input prices and reduced protection from competing imports due to trade liberalisation, the 11-tranche privatisation programme in appendices 6.1 and 6.2 notwithstanding.

(c) Poorly managed and inefficient firms, it goes without saying, will find the SAP-experience particularly traumatic.

10.3 Methodological pitfalls in evaluating SAPs

Before we move on to give a summary of the main conclusions based on the foregoing and other findings, we ought to recognise— from the general literature— that assessing the impact of SAPs is not without methodological controversy. Three approaches— and sources of debate— are common, as we saw in chapter 4.

10.3.1 **Before—After approach:** should the country's economic performance before the introduction of adjustment be compared with its performance after the introduction of the reforms? The problem with this school of thought, observes Killick (1992a), is that there are numerous and varying time lags between policy changes and their effects; world economic conditions that impinge upon an economy's performance are not static; and finally that we do not know what policies would have been in place in the absence of the adjustment programme.

10.3.2 **Actual-versus-Targets approach:** the argument here is that the results of the programme should be compared to the targets set in the Policy Framework Paper (PFP) and national budgets at the start of the programme. Killick (ibid) again contends that this can do no more than give us some pointers, for the additional reasons that the targets themselves may have been unrealistic, or arbitrary, or designed to achieve results by influencing expectations.

10.3.3 **With-versus-Without-programme approach:** should the performance of economies with adjustment programmes be compared with a control group of non-programme countries? Alternatively, should programme results be compared with the counter-factual— what would have happened in the absence of the programme? Commander (1989) argues that simply contrasting the performance of economies with SAPs against those without such programmes indicates a diffuse and ambiguous set of outcomes. It is difficult to select a control group that is truly representative and comparable, given also the non-homogeneity of economic conditions and distortions across countries undertaking and those not undertaking Bank-Fund reforms.

The counter-factual argument, on the other hand, begs the question of how to judge what would have happened in the absence of the programme, equally importantly how to disentangle the effects of the programme from the effects of other extraneous factors that impinge on the performance of economies.

Despite the above deficiencies— and for lack of any fool-proof alternatives— our study has used aspects of each of the above SAP-assessment methodologies. In the most difficult of these— the counterfactual argument— for example, the low copper production and world price levels permit an educated guess that under the consequent forex under-nourishment things could have probably been a lot worse without Bank-Fund forex disbursements for, among other things, BOP support.

10.3.4 **Inflation-induced methodological pit-falls at the micro-level:** the rapidly rising inflation (18.1 percent in 1981; 120 percent in 1989 and 225 percent in 1992) is found to distort financial ratio analysis. This is because— as Aragon (1982: 94) points out— high levels of inflation do not have uniform and strictly proportional impacts on a firm's financial statements and consequently biases the results of ratio analysis. Some companies are found to re-value their assets while others do not. This distorts, for instance, the ratio of return on investment (ROI).

10.4 CONCLUSIONS

10.4.1 At the macro-level

(a) **SAP has failed the ultimate test:** it is perfectly in order for us to judge the success of SAPs based on such quantifiable parameters as GDP growth rates, rates of inflation, forex earnings, and so on. In the final analysis, however, the very essence of SAPs is to improve (or help slow down or halt the decline in) the living standards of the rural population and the working class generally. This is the ultimate standard by which SAPs need to be judged. It is a test that Zambia's 1983-93 SAP, for various reasons explored in this Thesis, has failed. Almost without exception, the various measures between 1983-93 have failed to check inflation, unemployment, and general economic contraction. According to

the Zambian press, the rural population has reached a point of marginalisation, while inhabitants of the shanty compounds from Livingstone in Southern Province to Chililbombwe on the Copperbelt have been reduced to inadequate, one-meal-a -day families. Their purchasing power, or what has remained of it, has suffered chronic deterioration. **Zambia's SAP has, therefore, so far failed to meet the material aspirations of its people. Having said that, this author is certainly not unaware of the counterfactually sensible alternative argument that had Zambia not embarked on Bank-Fund SAPs, things could have been a lot worse.**

In summary, Zambia's SAP has so far failed because of a combination of reasons, among the major ones not already cited elsewhere are the following:

(i) **Insufficient supply-response:** the policy reversal in 1987 was in part because of lags in export growth [Thomas V, et al (1991: p283)]. As exports continued to stagnate, forex became more scarce while the forex auctions caused the exchange rate to rise rapidly, and thus uncertainty and instability increased. But as King (1991) reminds us, the lack of supply response in the main sector of agriculture has been due to seeds of unresponsiveness sown years earlier through what King describes as the most complete neglect of the small-holder sector and the prevalence of incentives to consume agricultural produce and disincentives to produce it. An un-diversified production base has also been a limiting factor to a quick supply response, as has the manufacturing sector's imported-raw-material-dependence which Kwacha devaluations have tended to worsen by making in-coming materials more expensive. This, in turn, has adversely affected capacity utilisation rates and consequently the export-supply response.

(ii) **Inadequate financing and chaotic implementation:** in a quite rare and sympathetic admission, Edward Jaycox (1991: p358)— World Bank Vice-President for Africa— explains this case thus:

"Zambia's was a terribly under-funded programme. We overestimated copper revenue, overestimated aid flows, and did everything we could to paint a picture of an internally consistent financing plan based on the resources that we and others could bring to bear. If the case had been looked at more closely and more skeptically, the plan's lack of realism would have become apparent. Certainly this is clear with hindsight".

Jaycox goes on to point out that a great number of shocks took place as the adjustment process went along: copper prices went down or stayed at the same level when they were expected to go up, aid that was expected did not arrive, deals with the Paris Club that were normative were made less liberal when the aid was increased. At one point— he points out— the actual financing was $200 million less than had been expected in net capital inflows. He believes that the end of the unravelling string in the Zambian case was the under-funding of the programme. He argues:

"Even though the string goes all the way back to the 1940s, my real interest now is in what happened in the period of formal structural adjustment. In sum, the Zambian programme was administered in a very chaotic way, and the chaos resulted in part from the inadequacy of financing and unrealistic financing projections".

Contrasting the Zambian case with that of Ghana clearly supports the widely held view— by, among others, the World Bank (1988: p6) and Jaycox (1991: p359)— that adequate financing and sustainability of SAPs are mutually reinforcing. Ghana's programme got more funding than it bargained for and got some positive results. It is always cited as Africa's success story— the **"blue-eyed boy"** or **"star pupil"** of the Bank and Fund.

(b) **Original Hypotheses revisited**: our evidence does not refute the belief— expressed in section 1.5 of chapter 1— that long-standing structural rigidities in the Zambian economy continue to be largely responsible for the continuing economic crisis. Structural adjustment has neither halted nor slowed the down-ward slide in the performance of the Zambian economy. The economy is still dogged by heavy import-dependence, over-dependence on copper and severe forex bottle-necks— among other things— despite a decade of sometimes courageous Bank/Fund-inspired adjustment.

At the manufacturing sector level, our evidence on key performance indicators does not refute the original position that SAP has failed so far to stimulate the transformation of the sector: towards achieving efficiency in import-substitution or reaching world standards in export performance. The sector is still dogged by problems of import-

dependence, forex shortages, capacity under-utilisation and lack of product and market diversification. This confirms Seshamani's assertion (1988) that by and large Zambian industrialisation has failed to attain its major objectives of regional diversification, reduction in import dependence, and promotion of employment and linkages within the domestic economy.

Having said that, it is impossible for the study to claim that what has happened or not happened is due solely to the adjustment programme. Other factors un-related to SAP tend to affect economic performance. We saw, for instance, that good weather conditions and copper prices in 1988 led to improved manufacturing performance, while the 1992 drought led to negative growth and a not-so-smooth take-off of the MMD's 1992-94 SAP.

10.4.2. **At the micro-level: SAP has wrong-footed manufacturing**

Despite some isolated successes— such as that of Swarp Spinning Mills— the overall assessment regarding the impact of structural adjustment on manufacturing is negative. On selected criteria below— and in preceding and later sections— we show that the sector is not only failing to achieve lift-off for the economy, but that it is performing quite badly as well.

(a) The depreciation of the Kwacha against major international currencies due to devaluation— and the floating exchange rate system introduced in early 1992— have increased industry's costs of production and dampened capacity utilisation **faster than** the industry has been able to:

(i) Raise domestic prices without dampening local demand further.

(ii) Wean itself from imported-raw material-dependence by sourcing local raw materials. What local raw materials exist are either insufficient, inferior, too expensive, or remain largely un-exploited.

(b) The double-whammy: the MMD's market reforms, led by economic liberalisation, have been **faster, wider, and deeper than** the long legacy of forex shortages, capacity under-utilisation, poor product quality, lack of aggressiveness on foreign markets and managerial inertia

have been corrected in time for the sector to face up to the new times. The depth and width of the MMD's liberalisation initiatives have been (politically) popular among the donor community. But in manufacturing the early indications are that productive capacity has been hurt by the flooding of imports on the local market.

Some firms have no doubt had to close shop because of hopeless inefficiency, but the liberalisation of exchange and interest rates coupled with imports has meant that even better performing firms with debt have been caught in the credit crunch. The result has been what Henley (1992) describes as the **double-whammy**— firms being hit from both ends as they have little money to buy raw materials, their bank debts are called-in, and at the same time liberalisation has hit the market with competing imports. The inability of firms to adjust products, markets and investment and distribution patterns as quickly as the effects of interest and exchange rate changes is given due prominence under lessons for other LDCs, in section 10.5.1 (b).

(c) **Excess capacity:** Forex and SAP-related problems (such as devaluation which has made imports more expensive) have contributed to failure in raising capacity utilisation and employment levels. Underutilised capacity is costly in terms of forgone output, and the ripple effect on the rest of the economy.

(d) **The South African factor:** three developments conjoined in 1992 to make what we have here called the "South African Factor" worth discussing. First, the acceptance of open trade with South Africa by SADC countries following what they viewed as acceptable apartheid reforms; secondly the Chiluba government's trade liberalisation initiatives which enticed South African business openly on the Zambian market; and lastly the South African government's aggressive incentives-support scheme to their export manufacturers elaborated upon in section 7.7.4 of chapter 7. The Guardian (2 April 1993: p16) also discusses this point, saying that South African export incentives allow exporters to sell into Zambia below cost— known commonly as dumping.

For Zambian manufacturers of both export and local products, the competition from South Africa is already proving severe as they run head-on into South African traders: not only in their own Lusaka-Kitwe-Ndola "back-yards", but also in the neighbouring states of Malawi, Zimbabwe, Angola, Mozambique, Tanzania, Kenya, Namibia and Botswana. "They are merciless creatures out to run us down into the ground" is how one Zambian businessman (see New African , October 1992) describes the growing presence of South Africans looking for trading and investment opportunities in Zambia following Chiluba's decision to liberalise the economy and open its doors to foreign investment. Factors that give the South Africans the edge include, among others: the size of their economy— estimated at 3 times that of the PTA; their knowledge about local conditions; and the superiority of their merchandise in terms of quality, competitive prices, comparatively short delivery times and compatibility with African conditions.

Zambian manufacturers are clearly worried. The Zambian market is already reeling under the weight of South African-made or assembled goods— ranging from inexpensive tooth-brushes to exotic foods, cars (President Chiluba, according to the Zambian press and The Guardian of 2 April 1993: p16, was the first to accept a free, $50,000 BMW from RSA's Business Development Management (BDM)— which he promised to drive himself to travel incognito!!), and expensive electronic devices. An economist in New Africa (ibid) complains: "it's crazy that we should even import office glue from South Africa", while another Zambian manufacturer laments, "we are dumping ground for South African goods and we shall soon be a satellite for South Africa's economic expansion".

On the political front, too, the South African factor has already claimed its first victim— the cabinet minister responsible for Works and Supply was dismissed in 1992 over impropriety in the purchase of furniture from South Africa for renovating State House— the President's residence in Lusaka.

The position of Zambian manufacturers is exacerbated by the fact that most Zambians equate imported products with quality and "a high life", consequently tending to shun local goods.

(e) **Trade liberalisation flourishes "brief-case imports":** an interesting (?) finding is that Zambian manufacturing is now competing with an additional force: "brief-case importers". These are Zambians who get back from trips to Europe or South Africa— visa requirements have been scrapped for Zambians visiting South Africa— with small enough quantities of essential goods and spares to carry on their person. In the motor-spares industry, for example, a flourishing black market has emerged into an industry of its own. If you want car spares at present, you do not go to established car dealers in down-town Lusaka, Kitwe or Ndola, because chances are you will not find them. You go to the Mishanga Boys or SIDOs (two popular terms used, the former literally meaning cigarette sellers, the latter connoting small scale business people) in the shanty compounds and underground markets of Chimwemwe in Kitwe, main Masala in Ndola, or the sprawling Soweto market outside Lusaka city centre. You will be in business.

(f) Knock-on effect of the drought: the 1992 drought crippled agriculture, cutting supplies of raw inputs to down-stream industries which in turn rely on agro-based industries for a huge slice of their domestic sales. The drought precipitated a 39.3 percent drop in agricultural output in 1992 (Price Waterhouse 1993: p6). Maize production, for example, fell from 12.2 million (90kg) bags in 1991 to 5.2 million bags in 1992. It is estimated that manufacturing output as a whole declined by -2 percent in 1992 (African Business, November 1992). This was as a result principally of rationed electricity and water supplies, high interest rates (70 percent), escalating imported input and machinery costs due to devaluation, inflation (225 percent) and reduced local demand because of declining disposable incomes.

Companies in the foodstuffs sub-sector using sugar, maize, flour, milk and other agricultural commodities were by far the most adversely affected; as was the textiles sub-sector relying on local cotton. The economy, by contrast, is estimated to have contracted by -2.8 percent (Price Waterhouse 1993: p4).

In the context of mixed results on the impact of SAPs in LDCs, as first discussed in chapter 2, section 10.5 below re-casts Zambia's adjustment experience in the form of lessons for other LDCs— in a way sustaining this author's argument that this study was never meant to be an end in itself. That the section is not comprehensive is more a reflection of the presence of useful lessons elsewhere in the synthesis chapters 10 and 11— and this author's desire to avoid repetition— rather than an oversight.

10.5 Mixed Results on the impact of SAPs: some cardinal lessons for LDCs

10.5.1 At the Macro Level

(a) **Economic and Political dimensions inseparable:** in analysing the causes, impact and trajectory of the Zambian structural crisis— and in suggesting possible solutions— this Thesis has made no attempt to separate the economic and political dimensions. Such an attempt would be at variance with the realities of current Bank and Fund-inspired SAPs, which as we saw in chapter 4 increasingly emphasise political conditionality. SAP is predominantly an economic concept, however we share Killick's view (1992a: p14) that arguably the most important condition for successful adjustment is political: the existence of a government that has the legitimacy, qualities of leadership and popular support to mobilise its population behind its adjustment policies, and which is strong enough to resist the protests of special interest groups in order to sustain its policies in a consistent and convincing manner. As we saw in chapter 5, part of the reason for the abandonment of the 1985-87 Zambian auction experiment was absence of the "political will" to carry the programme through.

(b) **The time factor in structural adjustment:** time is a vital factor with regard to the way in which economies adjust. As Henley (1992) rightly observes, macro-economic, financial adjustments— such as in exchange and interest rates— can be made fairly quickly, but to actually get industries to change their products, diversify markets, investment patterns and distribution channels takes years because the changes take

a long time to work through the economy. Also because of the different rates at which different parts of the economy adjust, trade tends to be affected more rapidly than production. Under devaluation, for instance, the cost effects are felt immediately in terms of rising costs of imported inputs and intermediate products.

Gulhati (1989: p51) argues, for instance, that SAPs require a combination of "getting the prices right" and complementary technical, managerial, attitudinal, and institutional changes that are time consuming— and warns that attempts to force the pace of change may not be the best way to proceed in SSA.

(c) **Break with the IMF:** Zambia's 1987 break with the IMF only served to underscore one latest structural vulnerability: that LDCs will find it hard to opt for "recovery from our own resources" programmes if **(i)** they do not have the resources, in the first place, especially in this case foreign exchange, **(ii)** what resources they have are either mis-directed or mis-timed, **(iii)** they expect to still obtain a large proportion of their financial requirements from the developed West, given that *cross-conditionality* will drive them right back where they started: in the arms of the IMF. Soon after the break with the Fund, the Bank virtually ceased disbursement of funds to Zambia. Early in 1987 the British government agreed to extend a loan to Zambia conditional upon an agreement being reached with the Fund. Immediately it became known that no agreement had been reached, the British announced that the money was no longer available (Fundanga, 1989).

Our position here is that SSA countries, Zambia in particular, cannot achieve sustainable adjustment and growth without foreign resources and assistance. Adjustment of the kind being advocated needs huge amounts of money, especially hard currency, which most SSA countries desperately lack.

(d) **4-D Syndrome undermines reforms:** a useful lesson from Zambia's 4-D predicament— debt, disease, dependence on imports and drought— is that the persistence of macroeconomic instability can undermine the

success of the structural adjustment programme, a point that Kirkpatrick and Onis (1991) also make with regard to Turkey.

(e) **Policy U-turns, even when inevitable, are nevertheless costly:** the Zambian experience clearly demonstrates that the cost of policy inconsistency is not insignificant. As Harrigan (1991) observes, constant policy shifts give rise to an economic environment characterised by uncertainty. As a result, even during periods of low policy slippage economic response— particularly from industry— may be slow due to pessimism regarding the consistency and sustainability of the policy reforms. Second, donor provision of support which is not accompanied by genuine recipient commitment to policy reform compounds the magnitude of the future adjustment effort, not only in the sense of the Bank's dictum that **"delayed adjustment means harsher adjustment"** but also in view of the debt-servicing burden created by such disbursements (ibid). In addition, such a practice has a tendency to create a vicious circle which gives rise to a "disbursement dilemma" as the realities of cross-conditionality take hold.

10.5.2 At the Micro Level

In the context of what we have named the 3CI+WIF syndrome, the major lessons at the manufacturing sector level can be cited as:

(a) **Import-dependence:** a manufacturing sector that is largely raw-material and spares import-dependent is likely to find capacity utilisation particularly vulnerable to fluctuations in forex availability, as the Zambian case illustrates.

(b) **Forex-related bottle-necks:** exporting firms that are imported-raw material-dependent and do not earn enough forex are likely to witness a vicious circle: where persistent forex shortages limit their capacity to import, starving them of essential raw materials, spare parts and capital goods, thereby leading to low capacity utilisation rates which in turn stifles exports.

(c) **Home-market orientation:** a general orientation to the domestic market (89 percent in Zambia's case) in the midst of heavy dependence on

imported inputs (over 60 percent according to our survey)— accompanied by little out-ward orientation (11 percent)— condemns manufacturing to low or negative growth when the economy is facing a severe forex constraint. Gulhati (1989) also makes this important point about Zambia, which our empirical analysis in chapter 7 supports by finding an 89 percent home-market orientation by visible NTEs.

(d) **High interest rates:** in the short-to-medium term, freeing of interest rates as part of Bank-Fund-inspired liberalisation may cause them to reach distress levels, exacerbating the condition in manufacturing. The high rates work against manufacturing but in favour of trading, including brief-case imports. As the "credit crunch" takes hold, credit is placed out of the reach of most manufacturers, thereby limiting any efforts at investment, re-investment, and provision of the necessary lift-off for the whole economy.

(e) **Short-termism by local banks:** with interest rates so high (70 percent); with a lot of uncertainty and corresponding risk in the economy; and with severe competition from South African imports, the Zambian manufacturing sector under liberalisation demonstrates the reluctance of local banks to lend for long-term projects because such lending simply is not profitable for them to undertake. The consequent shortage of long-term credit ultimately has to affect long-term investment and growth.

(f) **Cascade effects of tariff structure:** tariff and tax matters assume new prominence during structural adjustment. Complicated tariff systems— which Henley (1992) says are common in some developing countries[4]— may lead to expensive locally manufactured products relative to imports. This is because tariffs on one set of components or some part of the inputs progressively add up and have a cascade effect on the final product. Under liberalisation, Henley argues, if measures are not taken to monitor how the whole tariff system trickles down to the local pricing structure a situation may arise where the tariff burden of domestic products is higher than straight imports[5]. Seshamani (1988: p68) noted disparities in Zambia's tariff structure as of 1988. Such

disparities, he observed, were one reason for imports being more attractive than locally-produced goods. He cited the example of duty on imported tyres which was less than that on the imports required to manufacture tyres locally.

The key lesson is therefore not so much government making tariff concessions to domestic manufacturers as it is one of ensuring that competition is on a level playing field, making certain that competition with imports is on level terms. Complaints and views of local chambers of commerce could be one source of information on tariff disparities. The World Bank argument about modest levels of tariffs is therefore not simply one of free trade and competition, it is fundamentally one to do with the problems of the knock-on effects of the cascade structure of tariffs.

(g) **Mixed-bowl:** Hettige, Steel and Wayem (1991: p iii) make the necessary postulation that industrial performance in SSA is likely to remain mixed, depending on initial conditions (the extent of pre-reform distortions) and external shocks as well as on the ability of governments to sustain reform programmes. They argue— rightly— that financial reform and deepening[6] will be critical for sustained growth of industrial investment; even large firms in Africa lack access to the range of financial instruments found in other regions. Small firms have little recourse for external finance.

Even more importantly, perhaps, we cannot but give qualified support to Riddell's view (1990: p51) that the long term prospects for the development and deepening of the manufacturing sector in SSA will be critically determined by the nature of the policy environment, the incentive system in which manufacturing firms operate, and by policies and stimuli targeted specifically at firms within the sector and how effectively firms themselves respond to new challenges.

As one of our study's major contributions the question has to be asked and addressed, finally, as to whether there is any future at all for Zambian manufacturing. We address this next.

10.6 The crux of Zambia's adjustment problem: Prospects for non-traditional exports to replace copper by the year 2000

The 5 scenarios and growth targets we presented in section 10.2.4 of this chapter clearly present the enormity of Zambia's adjustment task. The question at this point then becomes: given what we now know about the structural rigidities of the Zambian economy and its manufacturing sector in particular, is it possible for the sector to replace copper in export earnings? This author thinks it is difficult to be optimistic, given that the success of Zambian manufacturing is really a function of wider factors: national and international, macro and micro, controllable and uncontrollable.

10.6.1 **International factors:** at the international level the fate of trade talks regarding higher and more secure prices for primary commodities, and the level of protectionism in Western markets will affect significantly the rate of manufacturing growth— as will general world economic conditions and the problem of foreign debt. The World Bank and the UNDP (1989: p27) admit that the severity of SSA's economic imbalances and the vulnerability of its economies to external factors often obscure the impact of reform on economic performance. As Chandra (1992: p114) points out, foreign debt repayments can cripple manufacturing if, in order to repay debts, Zambia cannot import essential raw materials. This leads to a reduction in manufacturing production, in turn reducing the sales taxes, customs duties and other tariffs that accrue to GRZ as revenue— in turn forcing GRZ to reduce expenditure on essential public infrastructure and services affecting the competitiveness of the manufacturing sector.

A far more serious problem at the international level deals with what Woodward (1992: p148) describes as problems in the global adjustment process, specifically what he calls "*the asymmetry of macro-economic adjustment*". Woodward reminds us that the process of macro-economic adjustment— which in turn affects micro-level/enterprise adjustment— centres around the pressure on countries such as Zambia with BOP deficits to reduce them, without any equivalent pressure on surplus nations to reduce their surpluses.

If Woodward's useful argument is taken— that one country's BOP deficit is by trade definition another country's BOP surplus just as one country's imports are another country's exports— then a second form of asymmetry in the adjustment process becomes important: the vast differences in economic and political power of different countries and groups of countries, especially between developed and developing countries. As Woodward (ibid: p150) points out, while the Fund gives policy advice to developed countries in its annual Article IV Consultations with them, there is a fundamental difference between the Fund's relationship with its developed members and that with its developing members. The relationship between the Fund and developed members is effectively that between an institution and its major shareholders. Its relationship with developing countries is essentially that between a lender and its actual or potential borrowers. This inequality, Woodward argues, is further compounded by the technical and institutional capacities of the two groups: Fund discussions with developed countries are essentially a dialogue between equals; while the more limited capacity for economic analysis in most developing nations puts the Fund in a more dominant position there.

In our latest information before going to press, Bird and Killick (see ODI 1993: p4) take a similar view, arguing that ultimately it is the Western governments which decide the Fund's policies and which determine its stance towards developing countries. They conclude (ibid) that:

"Since the USA exerts a particularly strong influence, disproportionate to its importance in world trade, to say nothing of its record as persistent producer of the world's largest budget deficit, the policies of the Clinton administration will be crucial in this regard".

The asymmetry is further compounded by the demand-orientation of Fund programmes, requiring adjusting developing countries to reduce demand or imports as part of conditionality. This situation— as Woodward rightly observes— tends to push developing deficit nations into reducing their demand as a means of external adjustment, but surplus nations are under no equivalent pressure to allow an off-setting increase in their demand. When deficit nations represent a large proportion of the world economy— as they currently do— the net effect is to slow down the growth of demand, and thus of income, in the world economy.

The above scenario leads to a reduction in the rate of growth of demand for the exports— both primary and manufactured— of countries like Zambia that are trying to adjust.

Yet another problem concerns the accelerating technological developments in the developed West. The use of robotics and other computer-aided manufacturing methods— involving less labour, just-in-time (JIT) inventory replenishment methods, shorter production runs and more flexible use of machinery— could erode the third world's advantages of endowments in cheap labour. In the area of third world agro-manufacturing, Chandra (ibid) notes the potential danger posed by the West's advances in biotechnology, where living organisms are manipulated in previously undreamed-of ways. The production in Western laboratories of crops traditionally grown in LDCs is a new phenomenon likely to seriously undermine development efforts there.

Seidman (1992: p5) supports the above view. She argues that developed countries' introduction of synthetic substitutes has narrowed their demand for third world countries' raw materials. Also, in chapter 2 we quoted the World Bank's 1989 *LTPS Report* as warning that bio-technology and materials sciences will provide a dazzling array of new products that may quickly make conventional processes and products in Africa obsolete.

10.6.2 **National factors:** Zambian manufacturing growth will also depend on the formulation, at both the macro and micro levels, of clear industrial policies, maintaining stability in these policies and avoiding injurious government adhoc interventions. We ought to emphasise that the ability of the MMD and future Zambian governments to combat inflation— currently 225 percent and rising— will affect directly both savings and investment levels, both currently very low according to Magande (1992).

10.6.3 **Manufacturing sector responses:** the extent to which the sector itself handles the product, price, promotion and place/distribution elements of the marketing mix will be equally critical to overall manufacturing success. On both the national and international markets, the speed and extent to which Zambian manufacturing responds to issues

of productivity, product quality, price, promotion and distribution will ultimately determine the sector's success. Distribution and marketing channels cost a lot of money and take a long time to create, as do new products. They are also prone to non-tariff barriers and protectionism in potential export markets.

Looking at the data we have, as explained elsewhere in this study, the picture regarding prospects for manufacturing transformation does not give much cause for optimism. Here are some of the other main reasons why we think this is so.

(a) **Small current NTE-base:** this has already been dealt with in section 10.2.4. To that discussion we have to add another deficiency: the preponderance of passive exporters over active ones. Most firms we interviewed gave the clear impression that they simply wait for unsolicited orders or enquiries during both the Lusaka Agricultural and Commercial Show every August and the Ndola International Trade Fair every early July. Not much effort is made to go out of the country to actively seek orders, displaying what we described in chapter 8 as the **wait-rider syndrome**— where they wait for others to make the first move before they can react.

(b) **Nature of major current export markets:** in chapter 7 we saw that while Zambian visible exports to Africa accounted, in value terms, for 51 percent of the total in 1987, the corresponding percentage share has been continuously dropping to reach 24 percent by 1991[7]. In contrast, the EC has remained the most important market, absorbing 39 percent of Zambia's exports in 1987, rising to 51 percent in 1991.

Within the above overall picture, we find that within the PTA and the rest of Africa the largest importers of Zambian manufactures are Malawi (31 percent of total exports to the PTA from 1987 to 1991); Zaire (19 percent); and Zimbabwe (16 percent). Between them they have accounted for 66 percent of all exports to Africa between 1987-91. Tanzania (12 percent) and Burundi (13 percent) are the other major destinations, the five together accounting for 91 percent of all exports to Africa. All 5

have relatively small economies and, more importantly, they face more or less the same structural problems as Zambia does.
In the EC, the United Kingdom is the leading importer of Zambian NTEs, averaging 49 percent of all exports to the EC for 1987-91. It is followed by Germany— at 23 percent— and together they have accounted for 72 percent of total 1987-91 NTEs to the EC.

Zambia's NTEs, in effect, go to only 7 major foreign countries, 5 in Africa and 2 in the EC. **There is an obvious danger to this kind of "market captivity", in the sense that economic developments in these 7 nations ultimately dictate the level of Zambian exports.** The PTA, for instance, imported 42 percent ($37.3 million) of Zambia's NTEs in 1990, but this nose-dived to 24 percent ($24.5 million) in 1991 due to reduced imports of petroleum products by Malawi; reduced imports of beef, mining equipment and other engineering products by Zaire; and reduced exports to Zimbabwe as that government became more protectionist and did not issue import licences to Zimbabwean importers easily— in line with its own tight forex situation.

Another problem is the identity or similarity of SAP programmes in Sub-Saharan Africa. Most of these countries pursue similar adjustment programmes and face the same World Bank and IMF conditionalities and cross-conditionalities. As part of their SAPs they all aim to reduce imports. We saw in chapter 9 how Zambia's exports to Zimbabwe declined because, as part of Zimbabwe's own SAP, it had to reduce imports to a level consistent with its tight forex situation. This amounted to a loss of export earnings for Zambia. This is one of the conflicts with regard to the instruments of both the Bank and Fund, as they may lead to a situation where one country's gain is another's loss.

Suffice to mention, at this stage, that under current Bank-Fund SAPs Zambia is only one of many programme countries being encouraged (indeed forced) to assume an out-ward looking strategy. For most of SSA the major export products (primary agricultural and mineral products) and markets outside Africa are— for economic and historical reasons— identical to Zambia's. If most of them succeed in increasing exports to

Western markets— which Stewart, Lall and Wangwe (1992: p28) say currently account for about 70 percent of African trade— there is the ominous possibility that the resulting surge of both primary and manufactured exports could cause a glut on those markets. This would lead either to too low prices and losses from exports— the so-called "fallacy of composition[8]"— or the re-imposition of import-barriers in these countries to protect their own local industries from cheap third world imports.

(c) **Capacity utilisation:** the sector's forex bottle-necks and dependence on imports and how these in turn affect capacity utilisation rates have already received considerable coverage in preceding chapters. The capacity of Zambian firms to produce internationally competitive goods is also fundamentally impeded by the obsolescence of their plant and machinery (EBZ 1990: p22); relative difficulty in procuring the latest high-technology machinery; lack of proper quality controls; and poor to absent marketing strategy. In chapter 9 we demonstrated how the 9 leading exporting sub-sectors experienced wide capacity utilisation declines of as high as 27 percent on average between 1990 and 1991, dropping from 62 percent in 1990 to 35 percent in 1991.

For the manufacturing sector as a whole, capacity utilisation is found to have dropped from 65 percent in 1985 to 57 percent in 1990 and a low of 34 percent in 1991. **We have no reason to believe that the major structural bottle-necks identified earlier— especially import-dependence and forex unavailability— will be fundamentally corrected by the year 2000 to bring about a dramatic change to this picture.**

(d) **Limited borrowing capacity:** if the sector's capacity utilisation rate (1991) is around 34 percent, this points to excess capacity of some 66-70 percent. Under normal circumstances this would provide opportunities to expand production without additional investment in capacity. In order to increase capacity utilisation, however, we argued in chapter 7 that most of the sector needs to borrow from outside— because it does not have adequate inside funds— and herein lies the major problem. First, borrowing rates of 70 percent due to interest rate liberalisation under the latest SAP are already beyond the reach of most firms. More importantly, we saw in chapter 7 that the sector already has relatively

high levels of debt— the average debt ratio between 1983 and 1990 was calculated at 58 percent. This means more funds are already being provided by outsiders, whose decisions as to further credit extension hinge on current loan portfolios in the sector. The implication is that the sector has little borrowing flexibility, it does not possess much borrowing power to tap for expansion purposes.

It could be argued that the sector could perhaps handle more debt if it was not import-dependent for raw materials. This dependence, however, means that earnings are vulnerable to forex availability— which the sector does not possess— and that earnings are therefore not stable. Another problem for the sector is that even if the debt ratios were low— implying unused borrowing power that could be tapped for expansion purposes— Zambian banks are increasingly more interested in short-term lending to traders, who have short pay-back periods, than to long-term investors because of uncertainty about the current inflationary economic conditions.

(e) **Worsening national debt-service ratio:** there is, of course, the issue of Zambia's huge foreign debt (with 1991 debt per capita standing around $850 per Zambian). The 1993 Oxfam report on Zambia estimates total debt for 1993 at $7.6 billion. With a population of 8.1 million, this amounts to an even worse per capita debt of $938. Another useful measure of the debt burden is the debt service ratio, that is debt service payments as a percentage of annual export earnings— or the proportion of export earnings needed for debt payments. The ratio of total external debt to exports, in Zambia's case, has worsened from a low of 200 percent in 1980 to 392 percent in 1984 and 637 percent in 1987 (World Bank 1988).

Unless the country gets further, more massive write-offs, the difficult choice between servicing debt (forced by, among other things, cross-conditionality) and at the same time continuing to meet industry's 60-64 percent import-dependence does not give much room for believing that manufacturing will be dramatically rejuvenated. More than 75 percent of the firms we interviewed gave the 1992-94 SAP a less than 50 percent chance of success unless it is backed by a large write-off of the debt burden. Others felt that the government's failure to reduce expenditure,

to curtail inflation, and to control wage increases in the public sector will undermine the success of current reforms.

In a nutshell, a lot of factors leave very little room for optimism about the manufacturing sector's chances of replacing copper in export earnings by the year 2000, not even 2010.

What do the micro-lessons we have proposed mean?

In a nutshell, that as long as the identified constraints remain intact, both the speed and sustainability of manufacturing response to adjustment will continue to be by and large disappointing. Ultimately, whether Zambian manufacturing as a whole becomes more dynamic over the next few years will depend on the access of firms and activities with high growth potential to the resources— foreign exchange, skilled labour, finance, inputs and markets— needed for a quick response to the new opportunities and greater competitive pressures created by the adjustment programme.

We have to emphasise— in conclusion— that simply because the sectoral, national and international factors discussed earlier on give little room for optimism regarding manufacturing transformation, that is not sufficient reason to stop aiming for the identified targets. For Zambia, there simply is no choice but to keep trying.

Perhaps the most difficult chapter in any Doctoral Thesis, recommendations, follows next. We opened chapter 9 with a note— that this study was never meant to be an end in itself, but rather a means to the continuing search for workable prescriptions to the ills besetting the Zambian economy. Chapter 11 is a humble attempt at doing just that.

FOOTNOTES

1 This revelation does not implicate any of the 25 Top Secret Committee members. Neither does it do any harm to Zambia, of which this author is a patriotic national. Under the MMD government, it is just a matter of time before scholars of all shades and persuasions begin to avail themselves of the report and its contents. This clarification is self-evidently necessary.

2 It was revealed to this author, at the time of acquiring a copy of said report during the 1992 field trip to Zambia, that the inclusion of the ZCCM Chairman underscored the seriousness with which Kaunda viewed the committee and the task at hand. The ZCCM chairman, it came to light, had otherwise been beyond such matters and inaccessible in the past, due principally to the power he yielded in the nation as ZCCM boss. For once, this author was told, the committee did appreciate the unsolicited ease and frankness with which he debated ZCCM-related issues.

3 Our latest information (see African Business, February 1993) is that Zambia earned a total of only $3.67 million from all non-mineral (non-traditional) exports in the whole of September 1992.

4 For adhoc reasons LDCs tend to add tariffs to so many items, usaully not done in a very systematic way. Care must be taken to ensure that the tax regime on intermediate inputs being imported is not higher than those of finished goods imports, the implication being that locally produced finished goods will end up being more expensive than imports. Tariff systems are admittedly difficult to administer, especially where the tariff system has more than 5 rates in which case the average LDC bureaucrat finds it impossible to maintain consistency.

5 Henley (1992) makes the important point that one of the immediate consequences of liberalisation is that when you suddenly switch to a liberal regime, you release forex for imports. It matters at this stage who has got the money to import: is it the genuine manufacturers who pay their fair due or is it firms and individuals with close connections to government and customs officials who import items duty-free or at a re-classified lower rate? In the latter case the ensuing lower prices make people happy for 2 to 4 months, but then the honest local manufacturers are stifled because they do not enjoy a fair fighting chance. The local authorities, therefore, have a duty to ensure that the tariff structure affects everybody fairly, with perhaps a little bias towards domestic production.

6 Defined by, among others, Hettige, Steel and Wayem (1991) and Musokotwane (1992) as the range and variety of financial instruments that banks avail borrowers, in this case manufacturers.

7 Stewart, Lall and Wangwe (1992: p27) confirm that regional trade has been low in Africa, accounting for about 5 percent of official trade with little change over past decades— despite what they describe as the initiation of over 200 regional agreements on trade and finace.

8 The fallacy of composition is the argument that what represents a viable strategy for a single economic agent may not be viable if adopted by a large number of economic agents simultaneously (Woodward 1992: p262). It might be viable for a single country to expand its exports of a particular commodity in order to improve its balance of payments; but if other producers adopt the same strategy, the increased supply might push the market price down by more than the volume of exports is increased, so that all end up with a reduction in their export revenues and a deterioration in their balance of payments (ibid).

CHAPTER 11: SYNTHESIS II: RECOMMENDATIONS

An attempt is made, in this second of a two-part synthesis of the Doctoral Thesis, to contribute to the debate about necessary ingredients for the success of Zambia's structural adjustment programme by suggesting measures that the donor community, the Zambian government, and the manufacturing sector each ought to take in order to induce growth in manufacturing and the economy generally. The point was stressed in chapter 10 that this study was never meant to be an end in itself. The macro/national-level and micro/manufacturing sector-level categorisation used in all 10 preceding chapters is maintained.

11.1 At the Macro-level

11.1.1 **Corto plazismo: forward to the past, or back to the future?:** it can be argued that two factors were largely responsible for derailing the adjustment programme during Kaunda's reign: a mixture of short-termism (that pervasive mix of chronic anxiety and skepticism that leads to an inability to plan beyond next week— Rodrik 1990) in the midst of Kaunda's own affinity for maintaining a "no-whipping-boys-of-the-IMF" stance; and inadequate, unsustained funding from the donor community.

The lessons for the Movement for Multi-party Democracy (MMD) and other future Zambian governments are therefore clear: persevere with the reform programme, against the backdrop of a clear conviction and sense of impartiality and determination. Days of ephemeral policy regimes such as characterised the Kaunda-era are clearly over— or should be, if the country wants to stand any outside chance of economic revival by the year 2000. **It is really a choice between going forward to the past, or back to the future.** As Professor Charles Harvey observed at the March 1992 SAP conference in Kitwe (Zambia), persistence with policy packages is necessary for reasons ranging from the length of time it takes to implement some parts of the SAP to the need to create confidence among producers of tradables that the new policies will hold (see also Harvey 1991: p121). Harvey (ibid: p124) makes the important point that producers of tradables cannot respond at all unless they believe that the

new set of relative prices (following devaluation) will last long enough for investment in increased production, if only of working capital, to be profitable. For the manufacturing sector in Zambia, the unstable policy environment has made it virtually impossible to do any strategic planning, a factor that— as we saw in chapters 7 and 8— is causing a lot of concern among manufacturing firms. It becomes critical for the Zambian government— as Harvey (1991) suggests in his rounded analysis of 7 African economies— to give the clear impression that it is sufficiently committed to the new policies for them to be sustained.

Secondly, if the World Bank's view (1988: p6) is taken that financing and sustainability of SAPs are mutually reinforcing— and there are no strong views to the contrary— then clearly it is incumbent upon the donor community to ensure adequate and sustainable development assistance: lest the 1987 policy reversal, which the Bank admits emanated partly from inadequate funding, should be repeated.

11.1.2 **Triad-consensus:** the absence of the **"third element"**, the Business community— including representatives from the Zambia Congress of Trade Unions (ZCTU)— in SAP policy conception and implementation was highlighted at the March 1992 SAP conference in Kitwe. Participants from industry felt very strongly about the need for government to consult them. As Henley (1992) points out, political incapacity to trust industrial interests enough to discuss what they need can be crippling to the adjustment process, not least because politicians— alone— may not have the capacity to write industrial policy.

Adjustment measures based on sector participation, consultation and consensus face a greater likelihood of popular enthusiasm and commitment than those put in place todate. It is easy for economists to chart the main principles and objectives of SAPs. But when it comes to the crunchy down-to-earth matters of implementation, mistakes are apt to derail the best laid plans (Sanderson 1992: p1). This is the area where Zambian business ought to be given a chance. It is they, isn't it, who live in that world, and therefore advice based on practical experience ought to be sought from them.

Such a view is neither new nor without support. White (1990), for instance, says since reforms are not as certain as is often assumed, those close to the scene have important judgments to offer. She points out that if other parties do get involved they are more apt to support the reforms and marshal broader support on their behalf. At the 1992 Kitwe conference Dr Earle Taylor— the Lusaka-based UNIDO regional director— warned that for Zambia, pronouncements ahead of consensus would send the wrong signals with regard to the privatisation programme. We suspect he was referring to the deep suspicion in Zambia about certain ministers wanting to speed-up the sale of parastatals to their own benefit.

11.1.3 **Speed of privatising the 11 SOE tranches (appendices 6.1 and 6.2):** although matters relating to implementation of Zambia's privatisation programme— still in its infancy at the time of going to press— are clearly beyond our current scope, a point ought to be made concerning the 11-tranche deadlines for privatising the 134 SOEs at the rate of 20 per year. The government should not feel unduly bound to adhere too rigidly to this time-table because, as Helleiner (1991) warns, pre-mature efforts to privatise in the absence of market capacities or adequate official preparation have proved costly in other countries, and that rigid privatisation deadlines can be counter-productive. Also, transparency and accountability are needed to ensure a smooth transition towards the needed improvement in both allocative and technical efficiency. The Oxfam report (1993) claims there has been some criticism among donor nations— led by Norway— and sources at the IMF and World Bank that the liberalisation process— which encompasses privatisation— is moving too fast and that the MMD government's almost theological belief in "the market" is dangerous when over 80 percent of the population is living at or below the poverty line. Mike Hall's special report on Zambia (see The Guardian, 2 April 1993: p15) also makes the same point.

11.1.4 **Expansion of the export base:** the continued dependence on copper exports was identified earlier as the major structural bottleneck, while dwindling copper production and export levels and the expected closure of most mines on the Copperbelt by 2025 are serious threats

needing urgent attention. The government needs to move swiftly to promote and encourage diversification of the export base for these reasons, also because the economy's remaining copper years need to be made less vulnerable to international fluctuations in the price of copper. In chapter 10 we provided precise targets that both the government and the non-traditional export sector have to aim for in order to replace copper in export earnings.

Both the number of non-traditional exporters and the level of export earnings have to increase to the targets we outlined in chapter 10. This means that NTEs have to increase the share of exports in total production from the EBZ (1992) estimate of about 11 percent to around 45 percent, given that the sector needs between 3 and 4 dollars to import raw materials for every dollar of exports. But even these targets— and the various growth rates we outlined in chapter 7 such as the 27 percent needed as of 1994— are very conservative estimates, given that all sectors of the Zambian economy depend directly or indirectly on copper-generated foreign exchange for importation of raw materials, machinery and spare parts.

The needed growth rates also entail considerable diversification in the destination of Zambia's exports, currently dominated by 7 nations— the United Kingdom, Germany, Malawi, Zaire, Zimbabwe, Tanzania and Burundi. This, in turn, entails improvements in the product— new products and/or improvements in the overall competitiveness of existing ones; price— more competitive; promotion— more visible, more aggressive; and place or distribution— more reliability in raw-material procurement procedures and delivery of final products to customers, both local and foreign.

11.1.5 **1992-1994 SAP to exclude 630,000 jobs— the need to cushion the massive social costs:** the Zambian minister responsible for Commerce, Trade and Industry, Ronald Penza, is on record as disclosing that 70,000 formal jobs will be lost as a result of the 1992-94 SAP (News From Zambia, 1-16 Sep 1992). Many of these will come from the privatisation programme— as a result of labour rationalisation as new owners trim the workforce to what is commercially optimal. Our analysis in chapter 6 in

fact indicates that:

(a) 70,000 jobs is 19 percent of Zambia's 1990 workforce of 376,950; (b) given the extended family system in Zambia— where livelihood is shared between the "haves" and their "have-nots" immediate and distant relatives, we can use conservative figures to show that the **knock-on-effect** of the 70,000 job losses translates into a total loss of livelihood for well over 630,000 Zambians, that is 8 percent of the country's total population. We have taken each of the 70,000 employees to be responsible for a total of 9 dependents in the immediate and distant families. These figures say nothing about the chain loss of livelihood for thousands of people in Zambia's informal economy who depend in one way or another on the earnings of the 70,000. Clearly, we are talking about social costs of massive and unprecedented proportions.

More local and foreign resources therefore ought to be mobilised by the government, the World Bank, the IMF and the rest of the donor community to assist in the preparation and implementation of a detailed "time and activity" plan to ensure that Zambians hardest hit by the SAP are actively and adequately provided for.

In the specific case of privatisation-inspired social costs, mitigation may take the form of adequate separation packages, re-training for re-deployment, and enhancement of self-employment opportunities. In rather simplistic terms, we are arguing that those who pay the price of privatisation— employees— should also reap some benefits. What has to be avoided, borrowing from Susan George (1988) is a situation where those who reap the benefits should reap more benefits at the extreme expense of those who pay the costs continuing to do so.

11.2 At the micro-level— getting the wheels of industry moving again: the lowest common denominator scenario

Transformation of Zambia's manufacturing sector through efficiency in import-substitution and achievement of world standards in export performance, as outlined earlier, requires more than just luck. Hard-nosed choices need to be taken at especially 3 levels: government level, manufacturing sector level, and at manufacturing sub-sector level.

11.2.1 **Measures by GRZ**

(a) **An enabling investment climate:** the need for the government to show consistency and conviction in handling the Zambian economy is all the more urgent given the need to gain investor confidence and overcome the legacy of state controls, misguided policies and over-protection. The investment atmosphere needs to be made more attractive in the light of competing alternative destinations— especially South-East and East Asia, South Africa and the Preferential Trade Area (PTA)— for foreign investors. That Zambia is scouting for foreign capital in a very competitive market needs no over-stressing. Kenya, Zimbabwe, Namibia, and South Africa— to name but a few— are all on the same mission. For Zambia to get her nose in front— and she absolutely needs to— she has to offer an investment package and atmosphere better than other neighbouring nations. Supporting legal structures also need to be modernised, simplified, and made more trustworthy. Manufacturing firms in our survey also complained that government bureaucracy is still intact. There is clearly need to reduce this and the unnecessary paper work.

(b) **Firm grip on inflation:** it has to be admitted that increases in the price of food— especially maize-meal— due to both the 1992 drought and removal of subsidies; increases in import costs as a result of the depreciating Kwacha; as well as demands for wage increases in the nation have all conjoined to cause an exacerbation of the inflationary spiral. But another major contributor to inflationary difficulties— government expenditure— is an area where action can and should be taken. In the 1992 budget the MMD promised to adhere to a "zero recourse to inflationary finance". But by the end of August 1992, the government had borrowed K24.5 billion from the Bank of Zambia and K26.3 billion from commercial banks, bringing the total to K50.8 billion. This was worsened by K5.2 billion in government over-expenditure in the second quarter of 1992 (African Business, February 1993). Yet only K1.8 billion had been saved by the end of August 1992 from the removal of mealie-meal and fertiliser subsidies.

The government, clearly, needs to get a firmer grip on inflation, even if some contributory factors have been beyond its control. As long as

domestic inflation continues to be high— and generally higher than Kwacha devaluations— then Harvey's argument (see Harvey 1988b: p68) becomes critical: that there can be no price shift in favour of producers of tradable goods and services, and all that results is a continuing (budgetary) imbalance at a higher rate of inflation than before.

(c) **The Infant-industry argument:** the policies of the 1960s and 70s offered excessive and ill-designed protection (Stewart 1991: p423) in both extent and duration. An important component of both Fund and Bank packages is import liberalisation. But as Stewart, Lall and Wangwe (1992: p26) point out, although the devaluation of the exchange rate offsets some of the effects of the adoption of undifferentiated import liberalisation— as some firms may indeed become competitive on the world market after devaluation— this measure tends to have a negative effect on local industrial activity— since the previously highly protected industry cannot compete with international firms. The three authors argue that this— together with the extreme shortage of forex as in the Zambian case— may lead towards de-industrialisation.

If industrial capacity is to be established— Stewart (ibid) points out— some protection of infant firms is essential in the short to medium term. Mild protection ought to be given to promising infant industries, especially in the light of the South African factor discussed in chapter 7. Otherwise it could be goodbye to infant firms long before they are able to stand on one foot, let alone two. Such protection should be phased out over, say, a 5-10 year period. This view is not without support. Killick (1990b: p41) for example advocates <u>temporary</u> protection. We agree with his view that there is much scope for argument about how long this protection should last. "The practical point", he argues "is that provisions of protection should be time bound, phased out gradually according to a pre-determined time-table". One criterion for selecting said industries is the probability of emergence of a dynamic comparative advantage based on, among other things, skill and factor requirements.

(d) **Infrastructural support:** it would be naive for us to assume away the obvious but crucial role that Zambia's health system, educational and

training system, transportation system (Zambia Railways, the road and air networks), telecommunications and local security situation all play in the adjustment process. Needing improvement and transformation themselves, they play an indispensable supportive and catalytic role in SAPs. They are all important ingredients in the search for structural transformation and sustainable development. For instance a number of observers, including the Bank, agree that for Africa the response to measures under structural adjustment programmes— even when positive— will be very limited unless the basic constraints on growth and poverty are addressed (Please 1992: p297; see also Stewart, Lall and Wangwe 1992: p7). As Please (ibid) points out, this judgment was the central theme of the Bank's *LTPS Report* (World Bank 1989d). Technological change, institutional strengthening, infrastructure development, improved education and health standards including reduced population growth, land reform and other major hurdles to economic development have to be addressed if growth and poverty alleviation are to be achieved.

Fnvironmental issues are also becoming increasingly high-profile world-wide, they therefore should not be denigrated. All these infrastructural and environmental factors, it must be emphasised, will influence the level and quality of foreign investment in Zambia, and ultimately the success of reforms. It would make sense, among other things, for the government to cut Zambia's unnecessarily large army— as reported constantly by the Zambian press— and channel resultant budgetary savings towards improving the afore-discussed infrastructural support. A small but effective Zambian army is being recommended.

(e) **Agricultural incentives:** agricultural development is an essential foundation for industrial development in Africa (Meier, Steel and Carroll, 1989). Meier, Steel and Carroll make the useful point that improved agricultural incentives can stimulate industry by increasing supplies of domestic raw materials and raising rural incomes, thereby helping also to cushion the social impact of adjustment. In Zambia's case development of agricultural infrastructure and provision of agricultural incentives has the extra appeal in the form of reverse-migration, in which a significant portion of the 53 percent urban population would find the incentive to

move to the rural areas to farm— instead of roaming the line-of-rail shanty compounds with no job prospects in the foreseeable future. The government needs to encourage this complementarity between agricultural strategy and manufacturing strategy at every possible turn of the adjustment process.

(f) **Further export incentives:** in the light of (i) developments in Sub-Saharan Africa (SSA) and especially the South African factor, (ii) given too the superior export incentives provided by other countries, and (iii) given most importantly the need for NTEs to grow by some 27 percent if they are to replace copper by the year 2000 as discussed in chapters 9 and 10, the government ought to think seriously about further improvements in the export incentives package, which at present centres around the 100 percent forex retention scheme.

(g) **Expedite forex retention procedures to reduce transaction costs:** the Bank of Zambia, the Ministry of Commerce, Trade and Industry, the Ministry of Finance and the Customs department should work closer together to lessen what our sample described as "the lengthy and costly delays that the 100 percent retention beneficiaries are experiencing in getting their actual hard currency from Bank of Zambia".

11.2.2 Measures by the Manufacturing Sector

(a) **Export more current products to both current and new markets:** if NTEs are to rise to the levels specified earlier for replacing copper, the first place to start is for the sector to export more of their current products— from the current estimate of 11 percent of total output. We agree with the assertion by Meier, Steel and Carroll (1989: p30) that:

"Even though the bulk of investment opportunities (in SSA economies) will be in production for the domestic market, sooner or later most countries will also have to increase manufactured exports to maintain industrial growth, expand employment opportunities, and diversify exports".

In Zambia's case this will call for more aggressive marketing strategies involving among other things better products, competitive prices, more

aggressive promotion, and supply reliability. This recommendation is the most logical given the important observation by Harvey (1988b: p71) that: new export markets take longer to develop than increased supply to old ones, and that it takes time to successfully export new products to both old and new markets.

(b) **Diversify into more finished products and new markets:** firms ought to diversify away from primary products into finished products for both the local and international markets— Karmiloff (1990: p306) estimates manufactured goods in Zambia at no more than 2 percent of the value of total exports. With regard to SSA in general, Save the Children Fund and ODI (1988: p57) are more convincing on the need for this diversification when they argue that:

"Increasing exports is an important key to the economic future of Africa... But it is totally unrealistic to expect the export of commodities such as winter vegetables or cut flowers to bridge the major foreign exchange gap of African countries that traditionally export commodities such as oil palm, coffee, cocoa and tea. The gap can only be bridged, in the long run, by new markets for new products. Africa needs to expand and develop its processing and manufacturing industries, and add value to its agricultural commodities before exporting".

On the trade (imports and exports) front, manufacturers ought to give due emphasis on horizontal trade with other PTA and Southern African Development Community (SADC) countries, as most trade before the recent opening up of South Africa has been vertical with the industrialised West. A major justification for recommending an expanded market presence within the PTA is: first, for forex generating purposes; secondly because of cost considerations due to proximity; thirdly because economies such as those of South Africa, Kenya and Botswana which are stronger than Zambia's would help to spread business risk for exporting Zambian firms; and lastly because this could lead to a revitalisation of product life cycles (and possibly exploitation of economies of scale arising from expanded production) for those products whose sales and profits are in the declining-maturity or decline stages of their life on the Zambian market. Reference should also be made to sections 10.6 and 11.1.5, which deal with the need to expand the base and depth of Zambia's non-traditional exports.

(c) **Improve average collection of receivables:** in chapter 7 we saw that the manufacturing sector's average collection of receivables has worsened from 2 months in 1983 to 4 months in 1990, when the manufacturing industry norm is between 45-60 days. Individual firms should try to improve their collection record— the admittedly tight liquidity situation in the economy notwithstanding. A return to the 1983 average of 2 months would be a useful target. This would be a useful step towards reducing bad debts as well.

(d) **Raise capacity utilisation rates:** as we illustrated through the 3CI+WIF syndrome in chapters 7 and 10, capacity utilisation in Zambia's manufacturing sector— a low of 34 percent in 1991— is a function of many factors. While the other measures suggested in this chapter would go a long way towards raising utilisation rates, we wish to stress the necessity for the sector to progressively substitute imported inputs for locally available ones *wherever* and *whenever possible.* This will concomitantly reduce the demand for forex and lead, hopefully, to the development of a self-reliant, highly inter-linked internal production structure. This recommendation is in keeping with the view we share with Killick (1989: p24) that industries are more likely to be competitive internationally if they are based upon local raw material supplies.

(e) **No venture capital, no venture forth:** the sector lacks the venture capital to expand. The imposition of a tight liquidity policy by BOZ, which in turn has adversely affected commercial banks' ability to meet the credit requirements of the business community, is partly responsible for this. So are the high interest rates of up to 70 percent, which our sample said represent a significant strain on borrowing for re-investment. Individual companies should therefore seriously consider joint-venture arrangements or strategic alliances with both local business and foreign investors to help pool development resources.

The South African factor is already providing a choice for some Zambian firms: between hacking out partnerships with foreigners or closing shop. More importantly, such joint ventures would facilitate technology transfers to Zambia, which the manufacturing sector will need if

recommendation 11.2.2 (b)— moving away from the export of primary products based on simple assembly operations into technologically more sophisticated production of finished goods— is to be realised. Provision of venture capital is also an area in which so many other players can and should get increasingly more involved: commercial banks, foreign donors, GRZ, and foreign financial institutions such as the African Development Bank and the PTA Bank in Bujumbura.

The government, the Zambia Confederation of Industries and Chambers of Commerce (ZACCI) and the country's 15 commercial banks should engage in a triad debate to see whether concessional lending rates can be agreed upon for especially small scale and other categories of firms with good expansion and export potential. Otherwise there is no way that current (70 percent) rates will encourage borrowing for both investment and re-investment, a situation that will put paid to the sector's hopes of providing lift-off for the entire economy.

(f) **Plant rehabilitation:** in the light of changed economic and competitive pressures under economic liberalisation, most firms will need to rehabilitate their production units to meet the new quantity and quality standards dictated by competitive, environmental and other pressures. This supports the view by, among others, Steel and Evans (1984: p v) that restructuring existing industries (rather than building new capacity) should be the main (SSA) priority in order to reduce demands on scarce public financial, physical and management resources.

(g) **More Ghanas, less Zambias**: analogous to both Bank and Fund desire to see more success stories like Ghana's and less SAP U-turns like Zambia's in 1987, the contention in this Thesis is clearly that the manufacturing sector in Zambia needs more Swarp Spinning Mills-type success stories. Established only 12 years ago in 1981, this "star pupil" of the sector has scored highly on all examined fronts, rising to the top 5 on the list of non-traditional exporters despite facing the many bottlenecks identical to those of other firms.

11.2.3 **Measures by selected manufacturing sub-sectors**

(a) **The textile and garments sub-sector:**

(i) Related diversification into cotton-synthetic blended fabrics: while emphasis should still be on cotton-based manufacture—where there is a strategic local resource comparative advantage— the trend world-wide dictates that the sector should in the medium to long term diversify into more synthetic fibres such as polyester, viscose and nylon. We emphasise medium to long-term here because these involve a sizable import-content. It is hoped that the comparative advantage from cotton-based manufacture will enable firms to make this diversification— as has Mukuba Textiles of Ndola— while maintaining cotton products as the cash-cow.

(ii) Diversification into finished, quality production of knitwear such as shirts, suits, towels and bed linen should be a matter of top priority for this sector.

(iii) Both the agro-based and textile industries should make a special effort, with government support, to increase price and other incentives to local growers of cotton. Other than their traditional forward linkages to cotton-based textile industries, cotton farmers have the potential to stimulate many other agricultural-based industries including, but not confined to: edible oil processing, animal feeds, food and soap manufacturing.

(b) **The metal and machinery manufacturing sub-sector: efficient steel imports instead of a local steel industry:** in the light of over-capacity and enormous surpluses in world steel and the presence of only a small user-industry in Zambia, as seen in chapter 7, the case for establishing a local iron and steel industry cannot be supported. The February 1993 edition of African Business reports on the surpluses by indicating that the cash-strapped countries of the Commonwealth of Independent States (CIS, the former Soviet Union) have stepped up mineral shipments to the West. This is happening at the same time as Western plants are beginning to reduce the inventories which they had stock-piled during the recession. This, the report concludes, will cause further downward pressure on prices in the first half of 1993.

So that what is needed, as Henley (1992) cogently argues, is for GRZ to ensure that any transfer pricing rackets in steel imports are minimised— as total elimination is impossible in the light of GRZ's weak technical and institutional capacities.

The aim should be to see that companies which are buying steel do so at the lowest possible cost to the economy. Manufacturing firms, for their part, should aim for efficient importing of required amounts of iron and steel inputs on the world market. Companies should have an active buying system which ensures active trading on the world steel market to get the best possible buy for the manufacturing industry.

11.2.4 A Shared responsibility— Measures by the Bank, Fund and the rest of the Donor Community

(a) **Hybrid initiatives:** in the midst of the 3-level measures recommended above, it has to be argued that the developed West has a critical supporting role to play, including: increased, well-timed, well-targeted development assistance at both sectoral and national level; and increased debt-relief. Zambian initiatives— since Zambians supposedly know and understand their own complexities and conditions better— supported by the donor community are likely to be more fruitful, synergistically, than "go it alone, home-grown" Zambian alternatives or foreign impositions acting alone.

The World Bank (1988: p72) concurs with this view, pointing out that external resources are an important complement— not substitute— for reform as they allow adjustment with somewhat higher levels of consumption and investment than would otherwise be possible. Such external resources thus increase the prospects for adjustment with growth and sometimes make difficult measures more acceptable. The Bank sees itself as having a three-fold role in this process, namely: to assist countries in designing adjustment programmes; to provide its own resources; and to act as a catalyst in mobilising resources from other lenders. As a matter of fact Killick (1984: p185) and Green (1989: p32) both point out that the record of "go it alone" rehabilitation and

recovery efforts in most reforming countries is discouraging.

(b) **Debt overhang[3] interferes with sustained implementation of SAPs:** although the issue of debt is one with which this author is not particularly comfortable, it goes without saying that steps ought to be put in place to accelerate the reduction of Zambia's debt. The Oxfam report (1993) estimates debt at $7.6 billion in 1993, twice the country's GDP and up from only $2.182 billion in 1980 (Independent Group of Economists 1988: Table 8). The reduction is necessary if the SAP for 1992-94 and beyond is to be both sustained and sustainable— a point that Mike Hall (The Guardian, 2 April 1993) also makes in his special report on Zambia.

(c) **Donor Community should stay at Zambia's bedside:** whatever their frustrations and temptations with regard to Zambia's reform process, it seems reasonable to advise the donor community to stay at the country's economic bedside. This recommendation is inspired by two rather critical factors, namely: (i) fear of the counter-factual: in Zambia's case mixed results— that is a few successes dotting many failures— are better than overwhelmingly negative outcomes that may well result from a no-SAP situation, and (ii) the economy's forex-undernourishment places it in a hopelessly no-win situation should Zambia opt for another "home-grown, go-it alone or growth-from-our-own resources" programme. As Killick (1992a), Abbey (1991) and others point out, in the search for a workable development strategy adjustment lending— from the Bank and Fund— must be viewed as a useful part of that strategy.

11.2.5 Measures by individual case-study companies

Having identified specific problems pertaining to the case studies in chapter 8, we would be remiss to leave the issue at problem identification stage without offering solutions. Monarch (Z) Ltd of Kitwe, the parastatal, is omitted from this section because by the time of going to press it was in the first tranche of 17 SOEs earmarked for privatisation by the Zambia Privatisation Agency, ZPA.

(a) **Swarp Spinning Mills Ltd**

(i) **Improve packaging:** SSML should improve its packaging, which foreign customers such as Burnet Walker & Company view as generally inadequate.

(ii) **Improve export credit terms:** from the current 30-day period to 60-days, which is nearer to the 90-days industry standard. As their first and most consistent foreign customer, for instance, Burnet Walker & Company of the United Kingdom deserve a better deal. The Glasgow-based campany has confirmed its readiness to not only increase orders of SSML cotton yarns from 120 to 240 tones per month, but also to commence orders of combed yarns and poly-cotton yarns as soon as SSML commences production of these products. This recommendation would in no way impair SSML's operations, given the 100 percent forex retention scheme entitlement and the fact that the firm is the 5th largest non-traditional exporter from Zambia, accounting for 59 percent of all textile exports in 1991.

(b) **Colgate Palmolive (Z) Ltd**

(i) **Improve production efficiency:** in section 8.2.3 we identified the threat of dis-economies in production, measured by the rising unit production costs way above levels of inflation. We showed unit costs to have risen from K1.8 per unit in 1981 to K78 per unit in 1991 and an estimated K137 per unit in 1992 when inflation rates for the three years were 18.1; 120 and 225 percent respectively. Colgate Palmolive (Z) Ltd therefore ought to investigate why costs are rising faster than inflation, and to take appropriate corrective/cost control measures.

(ii) **Improve management of accounts receivables:** the firm ought to improve its management of accounts receivables. A declining trend in the average collection of receivables was identified in chapter 8. The average time in days that receivables are outstanding was found to have increased (and therefore worsened) from 4.2 days— under a week— in

1981 to 42.4 days— over a month— in 1991. This raises the chance of delinquencies or bad debts in accounts receivable, which have to be avoided to maintain profitability.

(c) **Copperbelt Bottling Company Ltd**

(i) **On the Tip-Top versus Coca-Cola Controversy:** the wrangle between Coca Cola International (London office) and Copperbelt Bottling Company (see section 8.3 of chapter 8) over apportioning of production space between the company's Tip-Top and Coca Cola product lines threatens the Coca Cola franchise. It also detracts the attention of top management at Copperbelt Bottling Company from other equally pressing issues introduced by trade liberalisation. The case quite obviously has many more pertinent facts than this author knows, so that all we can do in this Thesis is advise that the case be resolved quickly and amicably between all the parties concerned.

(ii) **Early bird catches the worm— launch Tip-Top into SADC:** the popularity of the firm's Tip-Top soft-drinks on the Zambian market was confirmed in table 8.8. This line of soft drinks uses 100 percent local raw materials— fresh fruits from Luapula Province, North Western Province, and other parts of Zambia. With its strong financial indicators (tables 8.9 and 8.10), the firm seems well-suited to join the list of non-traditional exporters. The firm's profits rose from 79 percent of the previous year in 1986 to 257 percent in 1987 and 318 percent in 1989, all increases well above respective rates of inflation. Its residue of current assets over current liabilities (net working capital, a liquidity measure) has been rising steadily over the years. The 3 debt ratios presented in table 8.10 also confirm that the firm is not courting any foreseeable bankruptcy. The company has a lot of future borrowing power to tap for expansion, as less than 43 percent of its assets are currently financed by outsiders.

The SADC region— especially Botswana where potential has already been identified— would be a good place to start exporting, not least because the region shares cultural ties with Zambia, with language constituting a significant part.

(iii) **Improve collection of receivables:** as with the other two cases, this firm's average collection of accounts receivables (table 8.10) deteriorated from 27.6 days (under a month) in 1983 to 130.4 days (over 4 months) in 1989 and 111.3 days (3.7 months) in 1990. The larger number of days in which payment is not collected— which now seems to be a feature of the SAP reflecting the general liquidity problems in the economy— increases the probability of bad debts. The firm ought to monitor this carefully and make due improvements. The general liquidity problems in the nation do not absorb the company of the responsibility of trying to improve debt collection.

11.3 Focus of Future Research : Unanswered Research Questions

11.3.1 New Methodological Considerations

This study has also, perhaps, made a small contribution in one unlikely area: research methodology. At the risk of overstating the case, it ought to be repeated that organising the first-ever, 21-23 March 1992 national conference on Zambia's structural adjustment programme as part of fieldwork proved to be a more innovative idea than earlier imagined. Papers were presented by reputed academics— such as Professors Killick and Harvey— and practitioners that brought out issues that would otherwise never have been covered by the fieldwork proper; vital contacts were established that made it possible for this author to obtain the kind of documents that would otherwise never have been forthcoming; two other Doctoral students (Inutu Lukonga of IDS, Sussex and Obed Mailafia of Oxford) doing fieldwork in Zambia at the same time got hold of, and perhaps benefited greatly from, the conference papers; manufacturing companies were more willing (in some cases really excited) to help this researcher with his main questionnaire than before the conference; and enough money (K350,000 or about £1,500) was raised from the conference to sustain the entire 4-month research on the 43 manufacturing firms that inform chapters 7, 8 and part of chapter 9.

More importantly, perhaps, the conference did re-kindle national interest and debate on all aspects of Zambia's SAP, including privatisation. These

outcomes have vital real-life lessons for future PhD and other researchers who may wish to use methodological triangulation but have no assured fieldwork grants.

11.3.2 **New research frontiers:** does privatisation, in the SSA context, as part of Bank-Fund conditionality really promote functional efficiency — in production, management, marketing, accounting and finance? The MMD government is on record as promising to privatise 134 SOEs (appendices 6.1 and 6.2) before the end of its current term in 1996. It would be immensely rewarding to our current state of knowledge in this area if future researchers addressed the above question with respect to selected SOEs from tranches 1 to 5 that will have been privatised for at least one year. The research question, whose essential background our study has already provided, is:

" Has Zambia's Bank-Fund-inspired Privatisation Programme improved the efficiency of former INDECO and ZIMCO companies?" Using a sub-sector approach as we have done in this Thesis, such a future study should then have, as its terms of reference, objectives identical to those in section 1.2.2 in chapter 1 of our study. This would essentially involve a Before-After approach, although at the firm-level the After-Only-with-Targets approach may also provide useful insights. Comparing newly privatised firms with SOEs not yet privatised— that is the "with-programme versus without-programme approach"— would also prove useful.

11.4 **Threat of adjustment fatigue/Reform burn-out:** at the end of the day there is a sense in which you feel, if you have lived the Zambian life in recent years, that serious reform burn-out or adjustment fatigue is never really far behind should the current structural adjustment programme fail. Having attempted adjustment for a decade now, and for a nation that has never really known serious internal strife before, that is the most significant reason why the programme should succeed. Otherwise, in the gloomy conditions of drought, hunger and recession, social polarisation could become a very serious threat.

It is not easy to end a PhD Thesis on borrowed words. Not unless those words so fit the theme, the mood, and the times that one would rather be in debt forever. In his presentation at the March 1992 SAP conference in Kitwe, industrialist Murray L Sanderson warned:

"...now under a new government we are making what we in Zambia see as a fresh start. Outsiders, however, see it as a third attempt and a last chance. Whatever our standpoint, Zambia cannot afford another failure. **This time we must succeed.**"

Both Professors Charles Harvey and Tony Killick concurred, at the Kitwe conference, that failure of the current programme will in the end mean trying again. But not before the damage has been done to: Zambia's relationships with the donor community, and the credibility of the government and the goodwill which so far it enjoys. Such a scenario calls for government to leave no stone unturned in maintaining what Killick usually refers to as political support for the programme, in ensuring that the changes it makes are seen as fair, and avoiding the dangers that individuals in government are seen as not sharing in the hardships of the ordinary Zambian.

The above view by Killick is especially relevant because of the general belief, in Zambia, that some Cabinet Ministers in the MMD are more interested in enriching themselves before elections in 1996— what we called personal adjustment programmes (PAPs) in chapters 5 and 6. Mike Hall (see The Guardian, 2 April 1993: p15) sheds more light on this issue when he says of the MMD:

"The government's insensitivity does little to promote the need for austerity. Last year MPs were awarded tax-free salaries of K300,000 a month— more than 10 times that of other well-paid jobs. This year they were given interest-free loans to buy £20,000 Toyota Land-cruisers. There is concern, too, about ministerial corruption, mostly in the form of kickbacks on government contracts".

Doomsday scenario: in what Henley (1992) has appropriately termed the doomsday scenario, we ought to point out that fatigue could also be experienced by perhaps a more serious player in the adjustment process— the donor community, led by the Bank and the Fund. There

are, at the moment, three potential catalysts for donor fatigue with Sub-Saharan Africa (SSA) in general and Zambia in particular. First, having provided aid to SSA for so long, the region does not have much to show— in the view of the West— for the millions of dollars so far provided. Second, the break-up of communism in Eastern Europe and the ending of the cold war may lead the West— inspired by kith and kin and geo-political considerations— to concentrate on this region at the expense and possible marginalisation of Africa.

In his contribution to the special Oxfam report on Zambia (1993), Geoffrey Lean goes so far as to suggest:

"Now that the end of the Cold War has removed (Western) strategic interest in the continent, and the recession has turned economies inward, many in the West would like to abandon it (Africa)".

The ODI (1992) for instance estimates that reforms in Eastern Europe and the former Soviet republics (FSRs) will potentially affect developing countries directly through changes in the economic relationships with the region, and indirectly through an eventual diversion of resource flows and trade preferences of advanced industrial economies from developing countries to Eastern Europe and the FSRs.

The ODI special report further argues that the conversion of Eastern Europe and the FSRs from trade-preference givers to trade-preference receivers has reduced the value of existing preference to LDCs[4]. Lastly, the West itself is facing huge economic problems due principally to the world recession. Who would blame them if they poured money into putting their own house in order instead of worrying about Africa?

In the distinct possibility of donor fatigue in Zambia's adjustment efforts, the crucial question is what options would be available to this land-locked country of 8 million people?

Not too many, in this author's view. If the developed West packed their bags and left Lusaka, promising not to return in the foreseeable future,

Zambia would have to combine two approaches: one of which has been tried but failed, the other not quite. The first would be **"growth from our own resources part II"**. We have provided enough evidence and problems in this study— not restricted to forex under-nourishment— to indicate that this road alone may not succeed. It was tried at the time of severing relations with the IMF in 1987, only for Zambia to go back shortly afterwards. The second would be to build constructive strategic alliances with the one country whose economy is estimated at 3 times the combined economies of all PTA countries— South Africa.

Instead of fighting the South Africans, economically, this measure would entail cooperating with them fully. For instance we saw in chapter 8 how Colgate-Palmolive (Z) Ltd, a multinational firm, views open trade with South Africa as an opportunity to net-work with Colgate-Palmolive South Africa and coordinate production, training, and market segmentation. The South African economy provides special appeal for inducing growth in Zambia in respects not confined to: proximity, strength of their economy, and the considerable familiarity that both Zambia and South Africa have about the nature and operations of each other's economy. Zambia's incentive to cooperate also emanates from the need to reduce the huge current trade imbalance between the two nations: while South Africa is among the top 3 sources of Zambia's imports, Zambia's exports to South Africa are almost negligible, comprising largely of copper and scrap metal.

<u>African Business</u> (December 1992) for example estimates that in 1990 Zambia's exports to South Africa amounted to K55.8 million, compared to imports of K6.2 billion.

The crucial test would be on whether Zambia can provide South Africa with better incentives and benefits from these strategic alliances than they would get from, say, Botswana, Zimbabwe, Malawi, Namibia and the other PTA and SADC countries.

The "doomsday scenario" is worthy of further research. Future researchers may wish to centre their investigation around such key questions as:

(1) To what extent is donor fatigue, if any, already under-way in SSA-SAPs?
(2) What local resources would Zambia need to marshal in the above scenario?
(3) What nature would strategic alliances with South Africa need to take at both the macro and manufacturing sector levels?
(4) What other options would Zambia need to explore?
(5) What lessons for other LDCs, if any, could we then draw from Zambia's experience?

At the time of going to press, it may be possible for me to carry out research on the doomsday scenario under a Lloyd's Foundation 2-year Post-Doctoral Fellowship. I have just been short-listed for interviews in London on 30 June 1993 that will select about 5 out of 10 final candidates from across the United Kingdom and abroad. Appendix 11.1 provides the relevant details regarding this promising development. If successful, the research would commence in early September 1993.

Whichever way we may assess the underlying causes of the country's economic crisis, Zambia's adjustment and development tasks— to conclude our discussion— has never been more onerous.

FOOTNOTES

1 This revelation does not implicate any of the 25 Top Secret Committee members. Neither does it do any harm to Zambia, of which this author is a patriotic national. Under the MMD government, it is just a matter of time before scholars of all shades and persuasions begin to avail themselves of the report and its contents.

2 It was revealed to this author, at the time of acquiring a copy of said report during the 1992 field trip to Zambia, that the inclusion of the ZCCM Chairman underscored the seriousness with which Kaunda viewed the committee and the task at hand. The ZCCM chairman, it came to light, had otherwise been beyond such matters and inaccessible in the past, due principally to the power he yielded in the nation as ZCCM boss. For once, this author was told, the committee did appreciate the unsolicited ease and frankness with which he debated ZCCM-related issues.

3 Woodward (1992: p252) defines debt overhang as the excess of a country's external debt over its long-term capacity to pay, which he says acts as a discouragement to adjustment and investment. This disincentive arises because any increase in the country's net foreign exchange receipts over the long term will have to be devoted to servicing the debt, in effect imposing a 100 percent tax on additional foreign exchange earnings; and because producers expect higher future tax rates to repay the debt, reducing the expected post-tax rate of return on their investments.

4 The ODI report also points out that Western technical assistance efforts in support of Eastern Europe and the FSRs are attracting scarce management and professional expertise, potentially weakening the pace of institutional reforms elsewhere. The IMF has just established the Joint Vienna Institute to retrain former socialist officials and managers. This shift in political focus— the report argues— also weakens the voice of developing countries in global affairs.

APPENDICES

REPUBLIC OF ZAMBIA

OFFICE OF THE VICE-PRESIDENT

P.O. BOX 30708
LUSAKA

VERY URGENT 19th February, 1992

OUR FAX NO. 226969

Mr. Gerry Nkombo Muuka,
The Copperbelt University
School of Business,
P. O. Box 21692,
KITWE.

Dear Mr. Muuka,

re: OFFICIAL OPENING OF THE NATIONAL CONFERENCE ON ZAMBIA'S STRUCTURAL ADJUSTMENT PROGRAMME

I refer to your letter dated 10th February, 1992 inviting His Honour the Vice-President, Mr. Levy Mwanawasa to officially open the above National Conference on Saturday 21st March, 1992.

I am pleased to advise that the Vice-President has gladly accepted your invitation and will be available for the occasion on the said date.

In order to facilitate the preparation of the official opening speech, I would be most grateful if you could kindly send me some notes indicating the direction you would wish the speech to take in view of your PhD thesis requirements. It is of extreme importance that these notes are sent to me by the end of today by fax.

I look forward to hearing from you.

Yours Sincerely,

S. C. Kopulande
SENIOR PRIVATE SECRETARY
TO THE VICE-PRESIDENT

VERY URGENT

CAIRO ROAD P.O.BOX 32568 LUSAKA ZAMBIA
TELEPHONE 217271 TELEX ZA 42230 CABLES LONRHO

Lonrho zambia limited

INCORPORATED IN ZAMBIA

31st July, 1991.

G.N. Muuka, Esq.,
Doctoral Student,
University of Edinburgh,
Department of Business Studies,
William Robertson Building,
50 George Square,
EDINBURGH, EH8 9JY,
Scotland.
United Kingdom.

Dear Mr. Muuka,

Thank you for your letter dated 12th July, 1991. I am delighted to hear you are doing so well with your studies and congratulate you on your achievements to date.

With regard to the National Conference on Zambia's Structural Adjustment Programme which you are planning to hold at the Hotel Edinburgh, Kitwe, in March next year, I will gladly meet the accommodation expenses and meals of Dr. J.S. Henley and Professor T. Killick at the Hotel Edinburgh for the duration of the conference. I am also prepared to allow you to stay at the Lusaka Hotel for three weeks to cover the companies in Lusaka and look forward to hearing further from you regarding confirmed dates, etc., in due course, so that the relevant bookings may be made.

Kind regards,

Yours sincerely,

D. Basuthakur
MANAGING DIRECTOR

Canadian High Commission

Haut Commissariat du Canada
Box 31313
10101 LUSAKA

January 14, 1992

Gerry Nkombo Muuka
The School of Business
Copperbelt University
P.O. Box 21692
KITWE

Subject: National Conference on Zambia's Structural Adjustment Programme

Dear Mr. Muuka,

I refer to your letter of 10 December 1991, in which you detailed a conference you propose holding in March on the Zambia Structural Adjustment Programme. We found your ideas quite interesting but before we can make any commitment whether or not we could help fund the conference, it would be very useful if you could meet with Mr F.R. Pim at the Canadian High Commission to discuss the matter further.

May I suggest you call him on the telephone to arrange a suitable time for you to meet.

Yours sincerely,

A.L. MORANTZ
High Commissioner

The Canada Fund

P.O. BOX 31313
10101 LUSAKA, ZAMBIA

TELEPHONE: 228611/228612
TELEX: ZA 42480

Mr. G.N. Muuka,
Commonwealth Scholar,
School of Business,
Copperbelt University,
P.O.Box 21692,
Kitwe

Dear Mr. Muuka,

RE: NATIONAL CONFERENCE ON ZAMBIA'S STRUCTURAL ADJUSTMENT PROGRAMME

Please find enclosed three copies of the "Letter of Understanding" for the above project. Please sign all three copies and return them for signature by the High Commission.One copy will be returned to you for your records. Also find a cheque for ZK 100,000. for the project.

Sincerely,

S.A. MULENGA
ADMINISTRATOR

P.S. Please fill the application form for an attachment to the agreement.

Thank you

CANADA FUND

CANADIAN HIGH COMMISSION
P.O. BOX 31313
LUSAKA

Mr. Gerry Nkombo Muuka,
(Commonwealth Scholar),
Conference Director,
School of Business,
P.O. Box 21692,
Kitwe.

13 April 1992

Dear Mr.Muuka,

RE: APPOINTMENT WITH CANADIAN HIGH COMMISSIONER

The Canadian High Commissioner Mr. Aubrey Morantz would like you to meet with him in his office on 20th April,1992 at 9:00 hours. I have tried to phone you and to fax the Copperbelt University but to no avail. Could you please contact his secretary to confirm if you will be able to keep the appointment?

I would also like to meet with you but I am unavailable at that time. Perhaps you could see me during my normal office hours which are Tuesdays and Thursdays from 13:00 to 15:00 hours at the High Commission. I look forward to seeing you.

Yours sincerely,

S.A. Mulenga (Mrs.)
Administrator

unicef

United Nations Children's Fund
Fonds des Nations Unies pour l'enfance
Fondo de las Naciones Unidas para la Infancia

LUSAKA AREA OFFICE

P.O. BOX 33610, 10101 LUSAKA ZAMBIA
(Visitors: Pioneer House, 4th Floor
Cairo Road, Lusaka)
TELEPHONE 228001/228002
228665—228968
Telex No: ZA 44310
Fax No: 220370

Our ref:PM/Z/ADJ2/189-92

17 March, 1992

Mr Gerry N. Muuka
Commonwealth Scholar
School of Business
Copperbelt University
P.O. Box 21692
LUSAKA

Dear Mr Muuka,

RE: NATIONAL CONFERENCE ON ZAMBIA'S STRUCTURAL ADJUSTMENT PROGRAMME 21 - 23 MARCH 1992

Thank you for your letter of 5 February, 1992 asking for assistance for the National Conference you are organising.

I am pleased to inform you that UNICEF will contribute K60,000.00 towards the costs of the conference, cheque enclosed. Please sign and return the attached letter for our records. We also require a copy of the report of the conference as soon as it is available.

It is unfortunate that some of the presenters and participants will be unable to attend because of the Consultative Group meeting in Paris, but I hope that the conference will still be able to meet its objectives. Our Programme Assistant, Ms Muuka will be attending the workshop on behalf of UNICEF and will be able to brief us on the results. I wish you all the best.

Yours sincerely,

Ian G. Hopwood
UNICEF Representative

Please acknowledge receipt of the enclosed cheque by signing a copy of this letter and return it to us.

Signed:---------- Date: 20.03.92

GN MUUKA

lmm

Tel. 228888/228903-20

BANK OF ZAMBIA
P.O. Box 30080 Lusaka
10101

20th March 1992

Mr Gerry N Muuka
School of Business
Copperbelt University
P O Box 21692
KITWE

Dear Gerry

I am pleased to inform you that Bank of Zambia has donated K20,000 towards the organisation of the seminar of structural adjustment.

I wish to congratulate you on behalf of Governor, Bussieres for having made the seminar possible.

I wish you well in your future endeavours.

Yours sincerely,

S SAKALA
EXECUTIVE ASSISTANT TO GOVERNOR

NO 254962

Appendix 3.2: Official Programme for the 21-23 March 1992 National Conference on Zambia's Structural Adjustment Programme.

ZAMBIA'S STRUCTURAL ADJUSTMENT PROGRAMME
Edinburgh University
Management School (Scotland, U K)

IN CONJUNCTION WITH

The Business School, Copperbelt University

ARE PLEASED TO ANNOUNCE

A 3-Day National Conference on "Zambia's Structural Adjustment Programme"

TO BE HELD FROM 21-23 MARCH 1992
At
Edinburgh Hotel in Kitwe, Zambia

CONFERENCE OBJECTIVES

The Conference is aimed at, inter alia :

(a) Reviewing and discussing the nature, and origins, of the present "structural" crisis facing Zambia,

(b) Assessing the successes and failures of Zambia's 1983 - 1993 Structural Adjustment Decade,

(c) Assessing the role of the IMF and World Bank, and the rest of the Donor Community, in Zambia's adjustment efforts,

(d) Determining the impact of structural adjustment on the key sectors of the economy, principally Manufacturing, Agriculture, and Tourism,

(e) Identifying the Social Costs of Zambia's adjustment programme, along with past, present, and future ways of Mitigating these,

(f) Assessing the role of future SAPs in Zambia, including prospects for the country's economic recovery. Analyses shall be made of the key areas in which remedies for the "structural crisis" might be sought,

(g) Formulating questions of high priority for further inquiry,

(h) Reinforcing the need, and argument for, close Government-Industry consultation over economic matters in general, the components, pace, and direction of Structural Adjustment in particular. It shall be a critical aspect of the National Conference that the various issues should be thrashed out in a free and absolutely frank atmosphere.

Because the structural adjustment debate is every bit as political a process as it is economic, presenters and discussants have been accordingly drawn from a multiplicity of backgrounds: politics, ministries, the donor community [principally the IMF, World Bank and UNDP/UNIDO], Industry as well as, ofcourse, academia. Participants are equally drawn from all sectors and facets of the economy, formal and informal.
Consequently, the topicality of the SAP-related subjects to be addressed, as well as the wide interaction and insights to be gained, ought to generate and persuade wide interest among Zambian government policy makers, the donor community, and academia. So that contributing to the government's strategic economic agenda is, without doubt, the single most important object of the national conference.

GUEST OF HONOUR : **His Honour L P Mwanawasa, Vice-President, Republic of Zambia**

Conference Chairman: **Mr M C Chibosa**, Managing Director, Foam Plastics (Z) Ltd, Kitwe.

Co-Chairman : **Mr Mg'andu Magande**, MD, Zambia National Commercial Bank Limited, Lusaka.

Conference Director and Organiser : **Gerry Mkombo Muuka**, Edinburgh University Management School/Copperbelt University.

GUEST PRESENTERS FROM ABROAD.

1. **Professor Charles Harvey,** Fellow, Institute of Development Studies, University of Sussex.
2. **Mr Gerry Nkombo Muuka,** Edinburgh University Management School.
3. **Professor Tony Killick,** Senior Research Fellow at ODI and Visiting Professor, University of Surrey.
4. **Mrs Carolyn Jenkins,** Senior Lecturer, Economics Department, University of Natal, Durban, RSA.

PRESENTERS FROM WITHIN ZAMBIA

1. **Hon Kebby Musokotwane**, Secretary-General [UNIP], Former Premier, former Finance Minister.
2. **Hon. Dr Mathias Mphande**, Deputy Minister of Mines.
3. **Mrs Dorothy Chiyoosha Muntemba**, National Commission for Development Planning, Lusaka.
4. **Hon. Dr Chuulu Kalima**, Deputy Minister, Agriculture, Food and Fisheries.
5. **Mr Jacques Bussieres**, Governor, Bank of Zambia.
6. **Professor V Seshamani**, Senior Economics Lecturer, University of Zambia, Lusaka
7. **Hon. Ronald Penza**, Minister, Commerce, Trade and Industry.
8. **Mr Murray L Sanderson**, Vice-Chairman, ZACCI.
9. **Hon Akashambatwa Mbikusita Lewanika**, Minister, Science, Technology and Vocational Training.
10. **Mr Dev Babbar**, Chairman, Zambia Association of Manufacturers.
11. **Dr Ephraim Kaunga**, ZIMCO Director for Corporate Planning.
12. **Mr Ng'andu Magande**, MD, ZANACO Bank.
13. **ZCTU Official.**

MODERATORS AND DISCUSSANTS

1. **Professor Muyunda Mwanalushi**, Senior Manager, CISB, Kitwe.
2. **Dr Earle A S Taylor**, UNIDO Regional Director.
3. **Dr Mbikusita W Mbikusita Lewanika**, Managing Consultant, Vision Consult [Former Dean, School of Business, Copperbelt University.
4. **Mr Davidson Chilipamushi**, Lecturer, Business School, Copperbelt University.
5. **Mrs Irene Kamanga**, UNDP Lusaka.
6. **Mr Pat Puta**, MD, Copper Harvest Foods, Ndola.
7. **Dr Silane Mwenechanya**, Former General Manager ZCCM, Luanshya Division.
8. **Mr John Mufalali**, General Manager, Copperbelt Bottling Company, Kitwe.
9. **Dr Caleb Fundanga**, PS, Cabinet Office, Lusaka [Chairman, EAZ].
10. **Mrs Josephine B Muchelemba, Programme Officer**, SNV-Zambia, Netherlands Develop. Organisation, Lusaka.
11. **Dr K Mumba**, Acting Dean, Business School, Copperbelt University.
12. **Mr J Simuule**, National Board Chairman, Zambia Institute of Marketing [ZIM].
13. **Ms Jean Matebele**, BP Zambia, Head Office, Lusaka.
14. **Dr Moses Banda**, Manager, Research and Corporate Planning, Zambia National Commercial Bank, Head Office, Lusaka.
15. **Mr S Nayee**, Chairman, Kitwe Chamber of Commerce.
16. **Mr Theo Bull**, Lusaka.

PARTICIPANT PROFILE

Although the conference shall be open to all those able to attend, the following are the primary target groups; and should take this as official notification and invitation.

(a)	ZIMCO and INDECO	Private Sector	Govt. Ministries	Informal Sector	Finance, Agric Sectors
Managing Directors	*	*		*	*
General Managers	*	*		*	*
Functional Managers	*	*		*	*
Assistant Functional Managers	*	*		*	*
Business Owners		*		*	*
Permanent Secretaries			*		
Deputy Permanent Secretaries			*		
Economists	*	*	*	*	*
Senior Representatives	*	*	*	*	*

(b) ZCCM: ZAL Holdings.
(c) Senior representatives of companies and institutions from sectors not specifically mentioned in the above chart.
(d) Representatives from Embassies, International agencies, and the donor community.
(e) Interested national and international academics and students.
(f) Interested institutions and agencies from other Countries, especially in SADDC and PTA.
(g) Small Scale Industries Development Organisation, SIDO.

(h) ZCTU and Affiliated Unions.
(i) Non-governmental organisations, NGOs.
(j) Zambia Institute of Marketing (ZIM).
(k) Zambia Professional Women's Associations.
(l) Zambia Institute of Personnel Management (ZIPM).
(m) Economics Association of Zambia (EAZ).
(n) Farmers' Associations.
(o) Zambia Federation of Employers.
(p) Chambers of Commerce (especially Lusaka, Kitwe, Ndola, Livingstone).
(q) Lusaka, Kitwe, Ndola, L/stone Press Clubs.
(r) Zambia Association of Manufacturers.
(s) Zambia Confederation of Industries and Chambers of Commerce.
(t) Consumer Protective Association of Zambia.

[NB: Honourable Ministers and Deputy Ministers have already been invited].

CONFERENCE PROGRAMME.

A detailed conference programme is shown in appendix A, which includes explanatory notes.

CONFERENCE FEES AND PROCEEDS

Conference fees and payment details are presented in Appendix B. Proceeds from the National Conference shall go towards further research on the impact of Zambia's structural adjustment programme on Business Strategy : Being conducted by Gerry Nkombo Muuka.

Companies, Aid Agencies, Individuals and others wishing to donate to this worthy cause are kindly asked to do so. All such donations shall be individually acknowledged by letter -- and collectively through the Zambian Press -- by the Conference Director.

EXPLANATORY NOTES AND GUIDE TO PROGRAMME NUMBERS

(1) Structural Adjustment: Theory and Conditionality.
by **Gerry N Muuka**
(2) Structural Adjustment Programmes: Do they really work?
by **Professor Tony Killick**
(3) **Open Discussion.**
Moderator : Dr Mbikusita W Mbikusita Lewanika
(4) Economic Recovery under adjustment in Zambia: Our Record so far.
by **Hon. Kebby Musokotwane**, Former Prime Minister.
(5) Economic Recovery under adjustment in Zambia: What have been the failures?
by **Hon Akashambatwa Mbikusita Lewanika**
(6) Social Costs of Zambia's Economic Stagnation and Structural Adjustment.
by **Ms Dorothy Chiyoosha Muntemba**
(7) Impact of Zambia's structural adjustment programme on the Manufacturing Sector: Straight from the Horse's Mouth.
by **Mr Dev Babbar**
(8) **Open Discussion.**
Moderator: Professor Charles Harvey
(9a) The Constraints and Prospects of bank Finance to the Manufacturing sector.
by **Mr Ng'andu Magande**
(9b) Selling the Family Silverware: the Parastatal Reform Programme : Aims, Process, and Prospects in Zambia.
by **Dr Ephraim Kaunga**
(10a) The Manufacturing Sector and adjustment in Zambia since 1983.
by **Professor V Seshamani**
(10b) Encouraging Foreign Investment and Non-Traditional Exports— Our Priorities and Strategies during the next 5 years.
by **Honourable Ronald Penza**
(11) **Open Discussion.**
Moderator : Mrs Irene Kamanga/Mr Theo Bull
(12) Re-defining Zambia's Agricultural Strategy under Structural Adjustment: Forward to the Past or Back to the Future?
by **Honourable Dr Chuulu Kalima**
(13) The Role of Zambia's Financial Institutions during Structural Adjustment in the 1990s.
by **Mr Jacques Bussieres**, Governor, Bank of Zambia
(14) Recovery from Economic Disaster in Sub-Saharan Africa.
by **Professor Charles Harvey**
(15) **Open Discussion.**
Moderator : Dr Silane Mwenechanya

(16a) Zambia's Mining-Industry-Driven Structural Adjustment Programme: Any more Mileage?
by **Hon Dr Mathias Mphande**

(16b) The Unorthodox response of the South-African Economy to changes in Macro-Policy in the 1980s.
by **Mrs Carolyn Jenkins**

(17a) Zambia's Structural Adjustment Programme : Where do we go from here?—— A Business Viewpoint.
by **Mr Murray L Sanderson**

(17b) The role of the Labour Movement under Structural Adjustment in the 1990s.
by **ZCTU Official**

(18) **Open Discussion.**
Moderator : Dr Moses Banda

(19a) **Panel Discussion (See also appendix C).**

Panelists:

Mrs Carolyn Jenkins
Mrs Irene Kamanga
Mr Davidson Chilipamushi
Dr Earle A S Taylor
Dr Caleb Fundanga
Mr Theo Bull
Dr K Mumba
Ms Jean Matebele
Mr J Simuule
Mr John Mufalali
Professor V Seshamani
Mr Pat Puta
Mr S Nayee, Chairman, Kitwe Chamber of Commerce
Mrs Josephine B Muchelemba
Professor Charles Harvey

Panel Discussion Moderator : Professor Muyunda Mwanalushi.

(19b) **Group Resolutions (Appendix C).**
(20a) **Official Conference Resolutions: Coordinated by Mrs Josephine Muchelemba and Mrs Irene Kamanga.**
(20b) Reflections on the Kitwe Conference: By **Professor Tony Killick.**
(21) (a) Remarks by **Dr Mbikusita W Mbikusita Lewanika**
(b) Remarks by a participant representative: **Mr London Mwafulilwa**, MD, Mutende Mining Equip. Ltd.
(c) Remarks by the Conference Co-Chairman, **Mr M C Chibwa**
(22) Official Conference Closure : By **Dr Juvenalis M Tembo**, the Deputy Vice- Chancellor, Copperbelt University.

(23) **RECEPTION.**

FURTHER DETAILS.

Contact the Conference Director, Gerry M Muuka, as follows:

(a) Between March and April 1992 at :

The Copperbelt University
School of Business
P O Box 21692
Kitwe, Zambia
Telephone: 227946/222066/222218/222243
Telex: CBU, ZA: 53270
Fax: 222469

(b) After April 1992 at :

The University of Edinburgh
Department of Business Studies
William Robertson Building
50 George Square
Edinburgh EH8 9JY Scotland, United Kingdom
Telephone:031 650 4104
Telex : 727442 UNIVED G
Fax : 031 668 3053

(19a3) Zambia's Overall Adjustment Programme.

1. MR JACQUES BUSSIERES
2. PROFESSOR TONY KILLICK
3. PROFESSOR V SESHAMANI
4. MR MURRAY SANDERSON
5. DR CALEB FUNDANGA.
6. PROFESSOR C HARVEY.
7. MR S SAKALA, BOZ.

APPENDIX C: PANEL DISCUSSION GROUPS.

(19a1) Industry: Especially Manufacturing, Agriculture and Tourism (Including Parastatal Reforms, the Invest. Act)

1. MR JULU SIMUULE
2. DR EARLE A S TAYLOR
3. MR D CHILIPAMUSHI
4. MR PAT PUTA
5. MR S NAYEE
6. MR JOHN MUFALALI
7. DR E KAUNGA
8. MS JEANNE MATEBELE
9. MR P MUNUNGWE

(19a2) Social costs of Economic Stagnation and Structural Adjustment.

1. DR K MUMBA
2. MRS IRENE KAMANGA
3. MRS CAROLYN JENKINS
4. MRS JOSEPHINE MUCHELEMBA
5. DR MOSES BANDA
6. MR THEO BULL
7. MS INUTU LUKONGA.

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CMAZ Building
Ben Bella Road
Lusaka, Zambia 10101

Telephone: 226774
Cable Address: INTBAFRAD

February 12, 1992

Mr. Gerry N. Muuka,
The Copperbelt University,
P. O. Box 21692,
Kitwe.

Dear Gerry,

I very much welcomed our meeting together. You are clearly one of the most capable Zambian students I have yet met. I look forward to seeing you again. Are you interested in a career in the World Bank by any chance?

As to your excellent workshop, I am sad to say that it conflicts with the Consultative Group meetings in Paris. Unfortunately this will draw me and a number of other senior participants away.

Ellah Chembe, our economist, will attend on behalf of the World Bank - although I do not believe she would wish to present a paper.

Please do come and visit our offices again when you are next in Lusaka.

With my best wishes.

Yours sincerely,

John Innes
Resident Representative

LUTANDA LIMITED

HEAD OFFICE: P O BOX 20516, MISESHI ROAD, KITWE, ZAMBIA
PHONE KITWE 218166/218202 TELEX ZA 51550

LUSAKA BRANCH: P O BOX 33139 WASHAMA RD LUSAKA ZAMBIA
PHONE LUSAKA 221187, TELEX ZA 43290

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OUR REF: 471/91

18 December 1991

Mr Gerry Nkombo Muuka
University of Edinburgh
Department of Business Studies
50 George Square
EDINBURGH EH8 9JY

Dear Mr Muuka

CONFERENCE OF STRUCTURAL ADJUSTMENT IN ZAMBIA

I hasten to reply to your letter of 1st December, as well as to apologise for failing to respond to your original letter of last July. I must admit that my first reaction to your July letter was that you were being overambitious and that the conference was unlikely to take place. I then put it aside and forgot about it!

Having now received and studied your second letter and the accompanying literature, I am impressed by your determination, your detailed planning and your energy in working to transform your idea of a conference from a dream into reality. Thanks to your own preparation and drive, and also to the much more positive climate brought about by our recent political changes, I believe the conference now has good prospects of success.

However, I have a serious misgiving about the limitation in scope indicated by the title 'Impact of Zambia's 1963 - 1993 Structual Adjustment Programme on the Manufacturing Sector'. I should like to see more general examination of Zambia's SAP embracing the whole economy, not just our rather small and insecure manufacturing sector. I believe Zambia's economic future will depend much more on the expansion of our long neglected agricultural industry than upon the development of 'industry' in the narrow and commonly used sense of that term. I therefore welcome the shift in emphasis implied by the omission of manufacturing from the front sheet of your conference prospectus, and by the downgrading of the original conference title to merely one out of six objectives.

You will gather from this that I am not the right person to talk about the impact of SAP on manufacturing. For this presentation I suggest you approach the Chairman of the Zambia Association of Manufacturers, Mr Dev Babbar, and ask him either to give a presentation himself or to nominate a member to speak on behalf of the Association. Mr Babber can be contacted at Breakfast Foods Zambia Limited, P O Box 30036, Lusaka.

2/...

DIRECTORS M L SANDERSON, D B FISHER, E N MACAULEY, Y W SARDA

Mr Gerry Nkombo Muuka

18 December 1991

I look forward to taking part in the conference. If you still wish me to present a paper, I shall be glad to do so on the aspect of Where do we go from here? You already have the Minister of Finance speaking on the subject. You may wish to consider splitting it into two presentations, the government view and a business view.

I wish you every success with the SAP conference, and I look forward to discussing it with you when you come to Zambia next week.

With best wishes for 1992

Yours sincerely
LUTANDA LIMITED

M L SANDERSON
Executive Chairman

MLS/bcn

PS I should mention that Lutanda Limited is not itself a manufacturing company, although we do have such companies within the group.

APPENDIX 3.3C

University of Natal

Faculty of Economics & Management
Department of Economics

King George V Avenue Durban 4001 South Africa
Telephone (031) 8162589 Fax (031) 8162214
Telegrams University Telex 6212315A

7 May 1992

Mr G N Muuka,
c/o Department of Business Studies,
William Robertson Building,
50 George Square,
Edinburgh,
EH8 9JY,
United Kingdom.

Dear Gerry,

Thank you very much for the invitation to participate in the national conference on Zambia's structural adjustment programme. As I said at the conference, it was very meaningful to have contact with a Zambian university after so many years of isolation. I learned a considerable amount from hearing what other speakers had to say and from the discussion times. I was also delighted to meet and interact with students from the Copperbelt University. At a personal level, my memories of Zambia are very warm. From what I saw, it is a beautiful country, and I was genuinely overwhelmed at the kindness and friendliness of its people.

I am very appreciative of the trouble that you went to in looking after us. There was nothing I could have wished for that you did not think of and arrange, despite having your hands full with looking after so many other people and ensuring that the conference ran smoothly. It was an impressive conference in every way.

Thank you too for your postcard which arrived yesterday. I would be really pleased to have the opportunity to meet with you in the UK after my arrival in September. My work address in England will be the Centre for the Study of African Economies, Institute of Economics and Statistics, St Cross Building, Manor Road, Oxford, OX1 3UL.

Warmest greetings.

Yours sincerely,

Carolyn

CAROLYN JENKINS

The University of Natal rejects apartheid. It is an equal opportunities, affirmative action University.

INSTITUTE FOR AFRICAN ALTERNATIVES

Director Ben Turok, BSc Eng, MILS, BA(SA), MA(DSM)
Dep. Director Dr. Mohamed Suliman, MSc, Ph.D, MA

IFAA CENTRE SOUTH AFRICA
Co-ordinator: Ben Turok
4th Floor, Sable Centre
41 De Korte St.
Braamfontein
Johannesburg 2001
South Africa
Tel: (011) 339 6752
Fax: (011) 339-1127
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NCIL

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Dr. Eli Mwanang'onze MP
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herd Nzombe
abwe

Nzongola-Ntalaja
./Zaire

Haroub Othman
ania

ohamed Suliman
Sudan

urok
Africa/U.K.

3rd September 1992

Dr Gerry Muuka
Department of Business Studies
University of Edinburgh
William Robertson Building
50 George Square
Edinburgh
EH8 9JY

Dear Gerry Muuka

Professor Onimode has forwarded to us some information about your workshop on SAP in relation to Zambia. This seems to have been a very worth while activity and we would be grateful for copies of the material. We would also like to hear from you directly and in particular when you finish your Phd, you might be able to send us one of your papers apart from that we hope to maintain contact with you.

Yours sincerely

BEN TUROK
Director
IFAA

Telex: ZA 40641
Facsimile: 225270

REPUBLIC OF ZAMBIA

MINISTRY OF COMMERCE AND INDUSTRY

TECHNICAL COMMITTEE ON PRIVATISATION IN ZAMBIA

8TH FLOOR INDECO HOUSE
BUTEKO PLACE
CAIRO ROAD
P.O. BOX 30819
LUSAKA

6 April 1992

Dr Gerry Nkombo Muuka
School of Business
Copperbelt University
P O Box 21692
KITWE

Dear Dr Muuka

Re: ZAMBIA STRUCTURAL ADJUSTMENT PROGRAMME

As the Technical Committee on Privatisation, we were unable to attend the recently ended seminar hosted by you on the liberalised economy.

We have, however, followed keenly through media some of the debates that went on. Moreover, we have had some discussions with Mr Theo Bull (ZACCI) who was at that seminar. He has highly commended the quality of papers presented at the seminar.

The purpose of this letter is to kindly request you to send us seminar papers including the resolutions passed. These will be helpful to us no doubt and naturally will enhance part of our continuing effort in the consultation process.

We also look forward to any contribution you may make to the privatisation programme in the form of other relevant papers and suggestions.

I look forward to your full cooperation.

Yours sincerely

P D B MUNUNGWE
CHAIRMAN, TECHNICAL COMMITTEE ON PRIVATISATION

APPENDIX 3.4 NAMES, LOCATIONS, YEAR OF ESTABLISHMENT AND OWNERSHIP CATEGORY OF THE 43 SURVEYED MANUFACTURING COMPANIES IN ZAMBIA.

NAME OF COMPANY	LOCATION	PRINCIPAL SUB-SECTOR	YEAR	TYPE OF FIRM
1. AFE LIMITED	LUSAKA	6	1962	PARASTATAL
2. BOART ZAMBIA LIMITED	NDOLA	6	1963	MULTINATIONAL
3. BONAR COLWYN LIMITED	NDOLA	4	1964	MULTINATIONAL
4. CENTURY PACKAGING LIMITED	NDOLA	1	1975	PRIVATE, ZAMBIAN
5. CHEMMIMEX ZAMBIA LTD	KITWE	1	NA	PRIVATE, ZAMBIAN
6. CHLORIDE ZAMBIA LIMITED	KITWE	1	NA	MULTINATIONAL
7. COLGATE PALMOLIVE [Z] LTD	NDOLA	5	1967	MULTINATIONAL
8. CONSOLIDATED TYRE SERVICES LTD	KITWE	1	1972	PARASTATAL
9. COPPERBELT BOTTLING CO LTD	KITWE	3	1950	PRIVATE, JV [L+F]
10. DELTA ZAMBIA LIMITED	NDOLA	6	1953	PRIVATE, ZAMBIAN
11. FREBER LIMITED	KITWE	1	NA	PRIVATE, ZAMBIAN
12. GAMMA PHARMACEUTICALS LTD	NDOLA	5	1977	PRIVATE, JV [L+F]
13. INDECO MILLING LIMITED	NDOLA	3	1967	PARASTATAL
14. INDENI PETROLEUM LTD	NDOLA	1	1973	PARASTATAL
15. INTERNATIONAL CHEMICALS LTD	LUSAKA	5	1968	PRIVATE, ZAMBIAN
16. JOHNSON & JOHNSON [Z] LTD	NDOLA	5	1974	MULTINATIONAL
17. MEDWICH CLOTHING LIMITED	KITWE	4	1967	PRIVATE, ZAMBIAN
18. MERCANTILE PRINTERS LTD	NDOLA	2	NA	PRIVATE, ZAMBIAN
19. MONARCH ZAMBIA LIMITED	KITWE	6	1968	PARASTATAL
20. MONTEREY PRINTING & PACKAGING LTD	NDOLA	2	1959	PRIVATE, ZAMBIAN
21. MUKUBA TEXTILES LIMITED	NDOLA	4	1981	PRIVATE, JV [L+F]
22. MUTENDE MINING EQUIPMENT LTD	KITWE	6	1988	PRIVATE, ZAMBIAN
23. NATIONAL BREWERIES LTD	KITWE	3	1968	PARASTATAL
24. NDOLA LIME LIMITED	NDOLA	1	1931	PARASTATAL
25. NDOLA WEAVING TEXTILES LTD	NDOLA	4	1981	PRIVATE, ZAMBIAN
26. NICHOLAS LABORATORIES LTD	NDOLA	5	1968	MULTINATIONAL
27. NORGROUP PLASTICS LIMITED	NDOLA	1	1978	PARASTATAL
28. PERWAY INDUSTRIES LIMITED	KITWE	6	1979	PRIVATE, ZAMBIAN
29. PIGOTT & MASKEW LTD	KITWE	1	1964	PRIVATE, ZAMBIAN
30. PIPER CLOTHING LIMITED	NDOLA	4	1962	PRIVATE, ZAMBIAN
31. REFINED OIL PRODUCTS [ROP] LTD	NDOLA	3	1975	PARASTATAL
32. SAKIZA SPINNING MILLS LTD	KITWE	4	1986	PRIVATE, ZAMBIAN
33. SCAW LIMITED	KITWE	6	1948	PARASTATAL
34. SPECIALITY FOODS LTD	KITWE	3	1965	PRIVATE, ZAMBIAN
35. SWARP SPINNING MILLS LTD	NDOLA	4	1981	PRIVATE, ZAMBIAN
36. TESOLIN AND DARIOLI ENG. LTD	KITWE	6	1965	PRIVATE, ZAMBIAN
37. TITANIUM/BUFFALO PAINTS LTD	NDOLA	1	1965	PRIVATE, ZAMBIAN
38. VITAFOAM ZAMBIA LIMITED	NDOLA	1	1967	PRIVATE, ZAMBIAN
39. VITRETEX PAINTS LTD	NDOLA	1	1964	MULTINATIONAL
40. ZAFFICO LIMITED	NDOLA	2	1985	PARASTATAL
41. ZAMBEZI PAPER MILLS LTD	NDOLA	2	1979	PRIVATE, ZAMBIAN
42. ZAMBIA COLD STORAGE CORP. LTD	LUSAKA	3	1964	PARASTATAL
43. ZAMBIA SUGAR COMPANY LTD	LUSAKA	3	1968	PARASTATAL

NOTE: JV, L+F = JOINT VENTURE BETWEEN LOCAL AND FOREIGN OWNERS.
NA = NOT AVAILABLE.

SUB-SECTORS: 1 = CHEMICALS, PLASTICS AND PETROLEUM PRODUCTS; 2 = WOOD AND PAPER PRODUCTS; 3 = AGRO-FOOD AND DRINKS; 4 = TEXTILES AND WEARING APPAREL; 5 = HEALTHCARE/PHARMACEUTICALS; 6 = METAL AND MACHINERY MANUFACTURE.

ZAMBIA'S STRUCTURAL ADJUSTMENT PROGRAMME : ITS NATURE AND IMPACT ON MANUFACTURING BUSINESS STRATEGY.

APPENDIX 3.5: QUESTIONNAIRE ON THE ZAMBIAN MANUFACTURING INDUSTRY.

INTRODUCTION.

The Zambian Government has, especially since 1983, put in place quite a number of bold economic measures to try and improve the economy and, by implication, the lives of the people. Among the measures implemented, in cooperation with the International Monetary Fund, World Bank and other Donors, are :

* Devaluations of the Zambian kwacha
* The 1985-87 Auctioning of foreign exchange
* Trade Liberalisation, including:
  - . Elimination of govt controls on most domestic prices
  - . Decontrol of Interest rates
  - . De-subsidisation
  - . Decontrol of Internal and external trade flows
  - . Removal of Import restrictions
* The on-going Parastatal Reform Programme
* Other measures aimed at transforming the country into a market economy.

The emphasis, overall, has been on shifting the economy away from dependence on copper to reliance on "non-traditional" sectors, principally agriculture, manufacturing, and tourism. All this has been happening under what is now generally known as the Structural Adjustment Programme, or SAP.

In order to discover whether and to what extent the wished-for shift has occurred, and the impact of structural adjustment measures on the performance of the economy, it is vital that first-hand data and information are gathered from respective sectors of the economy and analysed.

Between January and March 1992 I shall be carrying out a study of the manufacturing sector to shed some light on the above problem. Your company is one of the 90 manufacturing firms in Zambia that I wish to visit and talk to during this period.

My study is intended to contribute to the debate about the shaping of future government economic policy with regard to the manufacturing sector. Clearly, your help in answering my questions is important for a study of this type. Without knowledge about the problems, needs, and potential of the manufacturing sector under structural adjustment, we cannot realistically begin to address the question of transforming the sector. This study will review recent experiences of, and future prospects for, the sector.

The information on your company's performance between 1983 and 1993 that I am seeking should contribute to a useful analysis of future choices for manufacturing and industrial development strategy.

I appreciate that executive time is at a premium, but I trust that you will be able to assist me in this exercise. Confidentiality with regard to company identity and the information you provide me with is assured. No mention of company names will be made in any reports without your prior consent.

GERRY NKOMBO MUUKA
EDINBURGH, SCOTLAND
JANUARY 1992

THE UNIVERSITY OF EDINBURGH
MANAGEMENT SCHOOL

RES. NUMBER_____

1-2
CASE [ ]

QUESTIONNAIRE ON THE IMPACT OF STRUCTURAL ADJUSTMENT ON MANUFACTURING BUSINESS STRATEGY IN ZAMBIA.

INSTRUCTIONS TO THE COMPANY.

(a) This questionnaire has a total of 7 sections.

Section 1 = Demographics/Social Status
Section 2 = Production
Section 3 = Marketing, Imports and Exports
Section 4 = Foreign Exchange
Section 5 = Accounting, Finance, and Investment
Section 6 = General Management and Administration
Section 7 = A detached Proforma Statement

Kindly answer all the questions in all the sections, bearing in mind that there are no "right" or "wrong" answers. All that is needed are your frank and honest answers. It would be appreciated if respective Functional Managers/Heads of Departments in your firm could be designated to respond to appropriate sections.

(b) Where boxes, ie [ ] are provided, simply tick the one with which your answer or opinion coincides.

(c) If your answer/opinion does not appear among those already given, use the "other, please specify" spaces provided to give your answer.

(d) Some questions are open-ended, ie no prior choices or opinions are indicated. In the spaces provided under each such question, give as comprehensive a response as possible.

DO NOT WRITE IN THIS COLUMN

SECTION 1 : DEMOGRAPHICS

(1) Type of Firm: 3-3 [ ]

(a) Private, wholly Zambian-owned [ ]1
(b) Private, wholly foreign-owned [ ]2
(c) Private, joint venture between local and foreign owners [ ]3
(d) Parastatal [ ]4
(e) Joint-venture between Parastatal and foreign owners [ ]5

(2) In what year was your company established? 19___ 4-5 [ ]

(3) What sub-sector of the manufacturing sector would you place your firm in? 6-6 [ ]

(a) Chemicals, Plastics, gases, and Petroleum-Related Sub-sector [ ]1
(b) Wood and Wood Products; Paper and Paper Products Sub-ector [ ]2
(c) Food, Drink, Beverages Sub-sector [ ]3
(d) Textile and Wearing Apparel, Leather Sub-sector [ ]4
(e) Agro-based Sub-sector [ncludes animal products, Sugar, Fruit] [ ]5
(f) Metal and Machinery manufacture Sub-sector [ ]6

SECTION 2 : PRODUCTION

(4) What products does your company produce? In answering this question, please give the percentage of total manufacturing activity represented by each product. For example, a firm producing 3 different products might give the following break-down of total manufacturing activity: 7-9 [ ]

Softdrinks	=	60%
Canned Foods	=	30%
Plastic Products	=	10%
Total	=	100%

Indicate, below, the average annual breakdown of your total manufactured products along similar lines as in the above example:

		1988	1989	1990	1991
(a)	=	%			
(b)	=	%			
(c)	=	%			
Total	=	100%	100%	100%	100%

(5) How would you characterise your production process? 10-10 [ ]

(a) It is capital/machinery intensive [ ]1
(b) It is Labour/people intensive [ ]2
(c) There's roughly a 50-50% balance between the two [ ]3

(6) Is your production process: 11-11 [ ]

(a) More dependent on local raw materials than on imported ones, but uses both [ ]1
(b) More dependent on imported raw materials than on local ones, but uses both [ ]2
(c) Dependent on local raw materials only [ ]3
(d) Dependent on imported raw materials only [ ]4

(7) Please provide, in the two spaces below, the average annual break-down of your total raw material requirements according to where they are sourced from:

	1988	1989	1990	1991
(a) Local sources[%]				
(b) Imported [%]				

(8) If your company uses local raw materials, do they include output from Zambia's agricultural sector? 12-12 [ ]

Yes [ ]1
No [ ]0

(9) If your answer to (8) is yes, roughly what percentage of your local raw materials comes from agriculture?_____% 13-14 [ ]

(10) What does your company import? Give full details regarding the nature [eg raw materials; semi-finished goods] and actual names of the imports. 15-16 [ ]

(a) Machinery [ ]1
(b) Raw Materials and intermediate inputs [ ]2
(c)_____
(d)_____

(11) For each of the imports above, give the country of origin. 17-19 [ ]

Name of Import	Country of Origin	
(a)_____	_____	[ ]1
(b)_____	_____	[ ]2
(c)_____	_____	[ ]3
(d)_____	_____	[ ]4

(12) If your firm does use imported raw materials, as in (11), provide reasons why you have not been able to eliminate dependence on foreign raw material sources. 20-23 [ ]

(a) Foreign prices are lower [ ]1
(b) Foreign materials are of better quality [ ]2
(c) Foreign sources are more delivery-dependable [ ]3
(d) Other, specify_____ [ ]4

(13) Has there been more emphasis, since 1983, towards the use of more local raw materials in your production process? 24-24 [ ]

Yes [ ]1
No [ ]0

(14) If your answer to (13) is yes, could you list, with brief explanations, factors that have led to in-ward sourcing. 25-27 [ ]

(a)_____ [ ]1

(b)_____ [ ]2

(c)_____ [ ]3
(d)_____ [ ]4

Questions 15 and 16 ask you to give the percentage of your machinery and spare parts requirements that you are able to manufacture, buy locally, or purchase from abroad.

(15) Machinery Requirements: 28-33 [ ]

(a) We buy____% of our machinery needs locally [ ]1
(b) We buy____% of our machinery needs from abroad [ ]2
(c) We manufacture _____% of our machinery needs [ ]3

(16) Spare parts requirements: 34-39 [ ]

(a) We buy____% of our spare parts locally [ ]1
(b) We buy____% of our spare parts from abroad [ ]2
(c) We make_____% of our spare part needs [ ]3

(17) Could you provide, for each of the following years, the production capacity utilisation rates in percentages. 40-48 [ ]

1983_____ [ ]1
1984_____ [ ]2
1986_____ [ ]3
1987_____ [ ]4
1989_____ [ ]5
1990_____ [ ]6

(18) Tick any of the reasons below for the less than full capacity production rates observed during 1983-92. 49-55 [ ]

(a) Inability to repair equipment due to lack of foreign exchange for the importation of spare parts [ ]1
(b) Inability to import raw materials from abroad due to lack of foreign exchange [ ]2
(c) Insufficient domestic market for our products [ ]3
(d) Spare parts and necessary machinery are available in Zambia, but we cannot afford their high cost [ ]4
(e) Bureaucratic problems with import procedures, hence timely importation of raw materials and spare parts has not been possible [ ]5
(f) Import duties for necessary raw materials are too high [ ]6
(g) Erratic, inadequate electricity supplies [ ]7
(h) Insufficient water supplies [ ]8
(i) Insufficient export market for our products [ ]9
(j) Insufficient bank credit [ ]10
(k) Transport bottlenecks [ ]11
(l) Other, specify_____ [ ]12

(19) Could you elaborate on <u>each</u> of your responses in (18). Please do also indicate how you have resolved each problem. 56-59 [ ]

(a)_____
(b)_____
(c)_____
(d)_____
(e)_____
(f)_____
(g)_____

(20) What measures is your firm taking in order to achieve full production capacity? 60-62 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

(21) During the 1983-92 period, has your company started producing any new products? 63-63 [ ]

Yes [ ]1
No [ ]0

(22) What are the names of the new products in (21)? Please do indicate, in brackets, in what year the additions were made. 64-66 [ ]

(a)_____ [ ]1
(b)_____ [ ]2

(23) Give reasons why you started producing the new products in (22). 67-69 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

(24) If your answer to (21) is that no new products have been added since 1983, give reasons why not: 70-72 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

(25) During the 1983-92 period, has your company stopped producing any products? 73-73 [ ]

Yes [ ]1
No [ ]0

(26) Give the names of the abandoned products referred to above. Do indicate, in brackets, in what year this happened. 74-75 [ ]

(a)_____ [ ]1
(b)_____ [ ]2

(27) Give reasons why the products in (25) were abandoned. 76-77 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(28) During the 1983-92 period, has your company introduced any new production/manufacturing methods [such as automating aspects of the manufacturing process]? 78-78 [ ]

Yes [ ]1
No [ ]0

(29) If your answer to (28) is yes, briefly describe the nature of the newly introduced production method indicating, in brackets, the year in which the introduction was made. 79-80 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(30) Give reasons why you introduced the new production method(s) you have just described. 81-82 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(31) If your company has not introduced any new production methods since 1983, give reasons why not. 83-84 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

SECTION 3 : MARKETING, IMPORTS AND EXPORTS

(32) Would you describe your company as: 85-87 [ ]

(a) One producing for the Zambian market only [ ]1
(b) One producing only for exports [ ]2
(c) One producing for both the Zambian and export markets [ ]3

(33) What percentage of sales goes to each of the following two markets? 88-91 [ ]

(a) Zambian market_____% [ ]1
(b) Export market _____% of which: [ ]2
PTA = ____%
SADCC = ____
Other = ____

(34) With regard to your exports, could you complete the following table dealing with the break-down of sales, in percentages, going to each of the export markets. 92-104 [ ]

	Name of product	Name of Export Market	% of total exports going to this country	
(a)	_____	_____	_____%	[ ]1
(b)	_____	_____	_____%	[ ]2
(c)	_____	_____	_____%	[ ]3

(35) In the period 1983-92, has your company been able to penetrate new foreign markets? 105-105 [ ]

Yes [ ]1
No [ ]0

(36) If your answer to (35) is yes, give names of the countries you have penetrated between 1983 and 1992. Do indicate, in brackets, the year in which this occurred. 106-116 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(37) If your answer to (35) is no, give reasons why your firm has not been able to enter new foreign markets between 1983-92. 117-119 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]

(38) Are there any export markets you have abandoned during the period under consideration? 120-120 [ ]

Yes [ ]1
No [ ]0

(39) If your answer to (38) is yes, give names of the countries you have stopped selling to. Include year of abandonment. 121-129 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(40) Why have you abandoned the markets in (38) ? 130-132 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(41) What impact has devaluation of the Zambian Kwacha had on the operations of your company? 133-139 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

EXPORT INCENTIVES

(42) If you do export, list the export incentives (such as export subsidies) that your company enjoys from the Zambian government. 140-143 [ ]

(a) Export subsidies [ ]1
(b) The 50% foreign exchange retention scheme [ ]2
(c) Tariff rebates for imports of raw materials [ ]3
(d)_____ [ ]4
(e)_____ [ ]5

(43) Have the export incentives you mentioned in (42) changed your company's exporting behaviour? 144-144 [ ]

Yes [ ]1
No [ ]2

(44) If your answer to (43) is yes, briefly explain what influence they have had. 145-147 [ ]

(a)_____
(b)_____
(c)_____

(45) If your answer to 43 is no, explain why the export incentives have not changed your exporting behaviour. 148-149 [ ]

(a)_____
(b)_____

(46) Please suggest, with brief explanations, what export incentives would encourage your company to export more vigorously. 150-154 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

SECTION 4 : FOREIGN EXCHANGE

(47) From your firm's experience since 1983, which one of the following foreign exchange allocation methods has been the most beneficial to you? 155-157 [ ]

(a) Bank of Zambia allocations [ ]1
(b) The 1985-87 Auction allocations [ ]2
(c) The FEMAC allocations, when K8=$1 [ ]3
(d) The current 1st and 2nd window system [ ]4

(48) Give the reasons why you found the method chosen in (47) the most beneficial. 158-161 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

(49) What changes would you like to see introduced to the current system of acquiring foreign exchange through the 1st and 2nd window allocation system? 162-164 [ ]

(a)_____ [ ]1

(b)_____ [ ]2

(50) Please indicate, in US dollar equivalents, the total amount of foreign exchange your firm has been allocated for the following purposes in each of the indicated years. 165-172 [ ]

	1983	1986	1988	1989	1990
(a) Purchase of plant and equipment/machinery $					
(b) Purchase of raw materials $					
(c) Other, specify _____ $					
Total forex alloc this year $					

SECTION 5 : ACCOUNTING, FINANCE, AND INVESTMENT

(51) How do you normally finance your operations? 173-175 [ ]

(a) From Retained earnings [ ]1

(b) From working capital [ ]2

(c) From Bank loans [ ]3

(d) Other, specify_____ [ ]4

Every company needs to borrow money from time to time: either for long-term purposes [such as investment in plant and equipment] or for short-term, trading operations. Questions 52 to 64 require you to indicate the amount and source of NEW loans your company has obtained since 1983, the type of collateral they [creditors] demanded, as well as how far you are managing to pay back said loans. In giving the sources of the loans, please give actual names of your creditors. A firm that borrowed money from four different sources in 1991, for example, might give the following details:

Development Bank of Zambia = K2.5 Million
World Bank = $200,000.00
Bank of Zambia = K315,000.00
Zambia National Commercial Bank= K852,000.00

(52) Give the source and amount of new short-term [payable within 1 year] and new long-term [payable in more than 1 year] loans your company has obtained during each of the indicated years, specifying in each case whether the loan is in Kwacha or US dollars. 176-186 [ ]

	1983	1986	1988	1989	1990
New Short-Term Loans: From: (a)_____					
(b)_____					
(c)_____					
New Long-term Loans: From: (a)_____					
(b)_____					

(53) What type of collateral did each of your creditors in (52) require? Simply fill out the following table. 187-192 [ ]

NAME OF CREDITOR	INTEREST RATE ON THE LOAN	TYPE OF COLLATERAL DEMANDED

(54) Are any of your loan repayments in arrears? 193-193 [ ]

Yes [ ]1
No [ ]2

(55) If your answer to (54) is yes, which loans haven't you finished paying back yet? Please give the source of the loan as well as the amount of respective loans still outstanding. 194-196 [ ]

(56) Give reasons why your company has not been able to pay back the loans in (55). 197-199 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3
(d)_____ [ ]4

(57) What steps are you taking to pay back the loan arrears in (55)? 200-202 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(58) What steps have your creditors in (55) taken to recover the money 203-205 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(59) Has any of your debt/loans [questions 52 to 58] been converted into equity for the creditors as a result of your inability to pay back? 206-206 [ ]

Yes [ ]1
No [ ]2

(60) If your answer to (59) is yes, which loans have been converted into equity? Do also indicate what conditions are attached to the conversion. 207-209 [ ]

_____
_____
_____

(61) As regards your borrowing requirements, do you find sufficient credit available to finance your capital investments? 210-210 [ ]

Yes [ ]1
No [ ]2

(62) If your answer to (61) is no, give reasons why credit is hard to come by. _____ 211-214 [ ]

_____ [ ]1
_____ [ ]2
_____ [ ]3

(63) Is sufficient credit available for your trading operations? 215-215

Yes	[ ]1	[ ]
No	[ ]2	

(64) If your answer to (63) is no, why not? 216-2218

_____	[ ]1	[ ]
_____	[ ]2	

(65) In which of the following has your company invested during the period 1983-92? Indicate %age of total investment to each. 219-224 [ ]

(a) Research and Development	[ ]1
(b) Capital goods	[ ]2
(c) Training and Development	[ ]3
(d) Replacement and rehabilitation of existing production capacity	[ ]4
(e) No investments have been made	[ ]5
(f) Other, please specify_____	[ ]6

(66) What impact do you think the 1990/91 Investment Act will have on your company's investment behaviour? 225-227 [ ]

(a)_____	[ ]1	
(b)_____	[ ]2	
(c)_____	[ ]3	

(67) What additional Investment incentives would you like to see introduced in order to enable you to increase your profitability? 228-231 [ ]

(a) Reduction in interest rates	[ ]1	
(b)_____	[ ]2	
(c)_____	[ ]3	

SECTION 6 : GENERAL MANAGEMENT AND ADMINISTRATION

As spelt-out in the introduction to this questionnaire, it is the aim of this study to discover the impact of structural adjustment on the manufacturing sector since 1983, when the adjustment programme started. It also aims at identifying ways of improving the overall performance of the sector as part of the country's adjustment process. This section, the last, asks some general questions about your company's experience during the period in question, including your strategic agenda for the future.

(68) Who represents your company's interests when lobbying and trying to influence the Zambian government? You may tick more than one. 232-234 [ ]

(a) The Chamber of Commerce	[ ]1
(b) The Zambia confederation of Industries and Chambers of Commerce, ZACCI	[ ]2
(c) The manufacturers' Association of Zambia	[ ]3
(d) Our company's management	[ ]4
(e) The Zambia Federation of Employers, ZFE	[ ]5
(f) Other, specify_____	[ ]6

(69) For each of your representatives in (68), please specify what sort of issues they handle on your behalf. 235-237 [ ]

(a)_____	[ ]1
(b)_____	[ ]2
(c)_____	[ ]3
(d)_____	[ ]4

(70) Do you think the current system of consultation between the Zambian government and industry is adequate? 238-238 [ ]

Yes	[ ]1
No	[ ]2

(71) If your answer to (70) is no, in what way can it be improved? 239-240

_____ [ ]1 [ ]
_____ [ ]2
_____ [ ]3

(72) Which of the following measures have been beneficial to your firm's operations? You may tick more than one. 241-247 [ ]

(a) The two-tier foreign exchange system [ ]1
(b) The 1985-87 auctioning of foreign exchange [ ]2
(c) The 50% foreign exchange retention scheme [ ]3
(d) The decontrol of domestic prices [ ]4
(e) The import duty drawback scheme [ ]5
(f) Devaluation of the Kwacha [ ]6
(g) Trade liberalisation [ ]7
(h) Other, specify_____ [ ]8

(73) For each of the measures you ticked in (72), do please explain below how it has been beneficial. 248-255 [ ]

_____

_____

_____

(74) What benefits, if any, has your company enjoyed as a result of the 1983-93 structural adjustment decade? Start with the most important benefit in (1) to the least important. 256-260 [ ]

(1)_____ [ ]1
(2)_____ [ ]2
(3)_____ [ ]3
(4)_____ [ ]4
(5)_____ [ ]5

(75) What have been the negative effects on your firm, if any, of the 1983-93 structural adjustment decade? Start with the most negative effect in (1) to the least negative. 261-265 [ ]

(1)_____ [ ]1
(2)_____ [ ]2
(3)_____ [ ]3
(4)_____ [ ]4
(5)_____ [ ]5

(76) Could you rank the following problems as they specifically relate to your company : from 1=the most vital problem to 9=the least important problem facing you. 266-271 [ ]

_____Lack of knowledge about foreign markets [ ]1
_____Lack of foreign exchange [ ]2
_____Absence of adequate local management talent [ ]3
_____Inability to do any strategic planning due to the stop-go, unpredictable Zambian policy environment [ ]4
_____Stiff competition as a result of trade liberalisation [ ]5
_____Inadequate credit and adjustment loans from Development Finance Institutions (DFIs) such as the Development Bank of Zambia, DBZ [ ]6
_____Local transport is both costly and unreliable [ ]7
_____High interest rates [ ]8
_____Inability to remit dividends and royalty payments [ ]9

NORMALISATION OF ZAMBIAN-SOUTH AFRICAN TRADE RELATIONS

Zambia is quickly changing its trade policies with South Africa as apartheid is being dismantled and there are signs of an emerging democratic process there.

(77) What positive impact do you think the normalisation of ties with South Africa is going to have on your firm's operations? Do give brief explanations for your answers. 272-273 [ ]

_____ [ ]1
_____ [ ]2
_____ [ ]3
_____
_____

(78) What negative effects do you foresee as a result of normalisation of trade ties with South Africa? Give brief explanations. 274-275 [ ]

_____ [ ]1
_____ [ ]2
_____ [ ]3

REGENERATING ZAMBIAN MANUFACTURING

(79) Please suggest, as candidly as possible, the most important measures that <u>your company</u> intends to take, over the next 5 years, in order to improve your manufacturing operations. 276-281 [ ]

(a)_____ [ ]1

(b)_____ [ ]2

(c)_____ [ ]3

(d)_____ [ ]4

(80) Please suggest, as candidly as possible, the most important measures that the <u>government</u> needs to take, over the next 5 years, in order to help regenerate the country's manufacturing sector. 282-287 [ ]

(a)_____ [ ]1

(b)_____ [ ]2

(c)_____ [ ]3

(d)_____ [ ]4

(81) What's your opinion about Zambia's prospects for economic recovery under the current Structural Adjustment Programme? 288-291 [ ]

(a)_____ [ ]1
(b)_____ [ ]2
(c)_____ [ ]3

(82) Please explain the reasons for your answer in (81). 292-297 [ ]

(a)_____ [ ]1

(b)_____ [ ]2

(c)_____ [ ]3

(d)_____ [ ]4

(83) Please use the space below to suggest any other improvements you would like to see regarding any aspect of the manufacturing sector. It would be helpful if you could also suggest who should bring about the changes and in what way.

298-305
[ ]

_____

_____

_____

_____

_____

_____

(84) Please indicate the job titles of all the people, in your company, who have participated in completing this questionnaire, including the annexed proforma statement/set of statistics.

306-310
[ ]

(a) Managing Director [ ]1
(b) General Manager [ ]2
(c) Chief Accountant [ ]3
(d) Personnel Manager [ ]4
(e) Marketing Manager [ ]5
(f) Production Manager [ ]6
(g) Purchasing Manager [ ]7
(h) Other, specify_____ [ ]8

PROFORMA STATEMENT ON THE IMPACT OF ZAMBIA'S 1983-93 STRUCTURAL ADJUSTMENT PROGRAMME ON MANUFACTURING BUSINESS STRATEGY.

RES. NUMBER———

1-2

CASE [ ]

PLEASE PROVIDE THE FOLLOWING STATISTICS FOR ALL THE YEARS SHOWN. EXCEPT FOR EXPORT SALES WHICH SHOULD BE GIVEN IN US $, ALL MONETARY FIGURES ARE IN KWACHA.

	1983	1984	1986	1987	1989	1990
(1) Total employees						
(2) (a) Export Sales, in US $						
(b) Total Gross Sales K						
(c) Total Net Sales K						
(d) Cost of Goods Sold, K						
(e) Gross Profit K						
(f) Total Taxes Paid K						
(g) Net Profit K						

(3) Total Current Assets : Of which:	K					
(a) Cash	K					
(b) Accts Receivables	K					
(c) Inventories, Ending Of which:	K					
Raw Material Inve	K					
Work in Process	K					
Finished Goods	K					
(d) Other Current Assets						
(4) Inventories, Beginning Of which:	K					
Raw Material Inve	K					
Work in Process	K					
Finished Goods	K					
(5) Total Fixed Assets, Net of Depreciation	K					
(6) Total Company Assets	K					
(7) Total New Capital Investments during the year	K					
(8) Total Current Liabilities Of which:						
(a) Bank Loans Payable: Local	K					
Foreign	$					
(b) Accounts Payable	K					
(c) Dividends Payable	K					
(d) Accrued Wages	K					
(e) Other Liabilities	K					
(9) Long-Term Liabilities	K					
(10) Total Liabilities of the company, that is (8)+(9) above	K					
(11) Total Retained Earnings	K					
(12) Total Owners' Equity	K					
(13) Total Liabilities and Owners' Equity	K					
(14) Total dividends paid	K					

Appendix 3.6: RESEARCH COST (ACTUAL) AND TIME SCHEDULE

We provide, below, a financial break-down and other details of how the fieldwork and national conference on SAP were funded.

(a) Return Airfares, Edinburgh - Kitwe			£876[a]
(b) Stationery			£300
(c) Transport for Principal Researcher: Fuel[b]			
Lusaka	33 days	£200	
Ndola	30 days[c]	£345	
Kitwe	53 days	£285	
Total	4 months		£839
(d) Transport and Allowances for the 12 Research Assistants:			£100
(e) Accommodation and meals for the principal researcher:			
Kitwe	82 days		£15[d]
Lusaka	32 days		£490[e]
TOTAL COST OF RESEARCH[f]		=	**£2,620**

EXCHANGE RATE USED : £1.00 = K245.00, the official exchange rate as of 30th April 1992.

Notes:

a: The £770 London—Ndola return ticket was paid for by my sponsors [Commonwealth Commission in London] while British Airways donated the London—Edinburgh ticket.

b: A Toyota Corora was donated by Lutanda Limited of Kitwe, while at other times the Copperbelt University kindly provided a vehicle and two cheques for fuel for K24,900 [for Kitwe and Ndola] and K24,000 for the 32 days in Lusaka. Otherwise, the rest of the cost of fuel was met from the conference proceeds as were allowances for the 12 student research assistants.

c: Fewest days, yet the most expensive because the principal researcher was making the 45-minute drive from Kitwe to Ndola every morning.

d: Accommodation at the Copperbelt University was free, while meals from their Guest house were heavily subsidised.

e: Accommodation and meals at Lusaka Hotel were entirely paid for by Lonrho Zambia Limited.

f: All other costs were paid for from the conference proceeds, which grossed K1.1 million [about £4,500] and netted, for the researcher, K350,000 [about £1,500] using the official exchange rate of April 1992.

APPENDIX CASE 5.1 : ABSTRACT OF THE CASE STUDY OF MANSA BATTERIES LIMITED

The firm was selected as typifying the outcome of import substitution in Zambia during the 1970s. Its principal characteristics included the following:

* Consumer-oriented with few possibilities for diversifying its product mix, * Relatively capital intensive and utilising complex and costly machinery, * Sited in a non-industrial environment, lacking commercial and physical infrastructure, * Designed for output volumes well in excess of the needs of the domestic market, * Dependent on the importation of the greater part of inputs and on the use of foreign managerial and technical know-how and * Not price-competitive, requiring protection from imported products.

The plant was inaugurated in 1978 as a joint venture with a large Finnish firm (Oy Airam Ab) that enjoyed its government's patronage and INDECO, holding two-thirds of the company's shares valued at K0.9 million. The project had been conceived in the early 1970s but site preparation took two years longer than anticipated largely because of its sub-optimal location— close to local deposits of manganese ore used as an input, but in a rural environment with poor communications with the country's main commercial and industrial centres. The installed capacity (44 million flashlight batteries) was more than double the peak level of such imports in the 1973 to 1977 period and about 4 times the average level of similar imports. The responsibility for project planning, procurement of equipment and machinery, installation, commissioning, management and training lay with the Finnish partner in the project.

It took but 18 months for the plant's operation to become seriously disrupted by defective equipment, inadequate technical supervision and, more crucially, the shortage of foreign exchange to purchase adequate supplies of raw materials and spare parts. This constraint was eased by additional Finnish assistance but also led to the divestment by the foreign partner of its shares in 1982.

Capacity utilisation during the 1978 to 1983 period (averaging 20%) never exceeded 29%. Employment levels varied between 200 and 250 persons. downtime averaged 16,000 man-hours per annum in the period 1981/82 to 1984/85, four-fifths (equally) due to machine break-downs and to shortages of various inputs. Because of these constraints, labour productivity declined after 1982. Additionally, no batteries were exported. The Kwacha cost of inputs almost quadrupled between 1979 and 1983. The higher costs of production could not be passed on fully to final consumers, thus reducing the firm's profit margins. Foreign exchange allocations to the firm by the Bank of Zambia covered, on average, only one quarter of the firm's requirements, obliging it to rely ever more on expensive supplier credit. By 1984/85, its long-term debt amounted to K7.3 million.

SOURCE: Rajeswaran K, TECO Research Project Publication No. 7, The Institute of Development Studies (Sussex) and the University of Helsinki, April 1986— As quoted in Karmiloff I (1988?), Industrialisation in SSA— The case of Zambia, ODI Working Paper no. 26, London, p38.

Appendix 5.2: A Taxonomy of Underground Economies

The critical criterion for distinguishing between above-ground or formal activity on the one hand, and underground or informal activity on the other, is whether the activity adheres to the established, prevailing institutional rules of the game. Different types of underground activities are distinguished according to the particular institutional rules that they violate.

To illustrate the use of this standard as a basis for a classification system, Feige identifies four specific types of "underground" economic activities— illegal, unreported, unrecorded, and informal— and explores their nature and interrelationships, and relevance for different economic issues. The metric for measuring the dimensions of each underground activity is the aggregate income generated by the activity.

(a) The Illegal Economy: The illegal economy consists of the income produced by those economic activities pursued in violation of legal statutes defining the scope of legitimate forms of commerce. Illegal economy participants engage in the production and distribution of prohibited goods and services. Criminologists and law-enforcement officials have a natural interest in monitoring the size, growth and social consequences of illegal activities. The most notable illegal activities are the production of prohibited substances (e g, drug-traffic) and black market currency exchange. The illegal production of drugs provides a lucrative source of income that competes directly with the production of other cash crops. But its most serious consequence is to undermine the stability and responsibility of political, legal and economic institutions that might otherwise serve to facilitate the development process.

(b) The Unreported Economy: The unreported economy consists of those economic activities that circumvent or evade the institutionally established fiscal rules as codified in the tax code. A summary measure of the unreported economy is the amount of income that should be reported to the tax authority but is not. A complementary measure of the unreported economy is the "tax gap", namely, the difference between the amount of tax revenues due the fiscal authority and the amount of tax revenue actually collected. The "tax gap" measure takes account of the appropriate marginal tax rate, as well as non-compliance with the rules concerning deductions from and adjustments to reportable income.

The size and growth of unreported income and the tax gap affect the size of budget deficits, the government debt, and tax reform policies. Tax evasion is a particular problem for developing nations whose already weakened fiscal authority must now shift a greater burden of revenue collection to monetary policy.

(c) The Unrecorded Economy: The unrecorded economy consists of those economic activities that circumvent the institutional rules that define the reporting requirements of government statistical agencies. A summary measure of the unrecorded economy is the amount of unrecorded income, namely the amount of income that should (under existing rules and conventions) be recorded in national accounting systems (e g, national income and product accounts) but is not. Unrecorded income represents a discrepancy between total income or output and the actual amount of income or output captured or enumerated by the statistical accounting system.
One particularly important component of unrecorded economic activity in developing nations is household production, which is typically omitted owing to the difficulty of measurement.

(d) The Informal Economy: The informal economy comprises those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rules covering property relationships, commercial licensing, labour contracts, torts, financial credits and social security systems. A summary measure of the informal economy is the income generated by economic agents that operate informally.

The salience of informal activities derives from the fact that their existence is intimately connected with the institutional arrangements imposed by the state. As such, any positive or negative outcomes associated with the emergence of the informal economy can, in principle, be either reinforced or weakened by policy actions which modify the institutional setting.

SOURCE: See Feige E L [1990], pp989—1001.

APPENDIX 6.1: FIRST TRANCHE OF 17 ZAMBIAN SOEs ADVERTISED FOR SALE.

THE ZAMBIA PRIVATISATION AGENCY

INVITATION TO PARTICIPATE

The Zambia Privatisation Agency invites domestic and foreign private sector individuals and firms to participate in the acquisition of the first tranche of state owned enterprises, SOEs. The SOEs will be divested by the Zambia Privatisation Agency (ZPA) through trade sales and management and/or employee buyouts. The sales will be for cash terms only, except in the cases of Zambian individuals and management and/or employee buyouts, which may be on credit terms. The general procedure is as follows.

The proposed investor must file an application with the Agency in order to pre-qualify on each SOE for which he wishes to bid. He also must execute a confidentiality agreement for each one, in other words, promise to keep secret any proprietary information received. The agency will then inform those parties who have been pre-qualified.

Pre-qualified bidders may obtain a tender package containing bidding procedures and information describing the SOE upon payment of a non-refundable fee of K50,000 or $250 per package. After a period for investigation and analysis, ie "due diligence" work, the bidders will submit their bids. The Agency will evaluate the bids and inform the finalist. The Agency and the selected bidder will negotiate and execute a share/asset transfer agreement, which will provide for payment of the consideration, transfer of all the shares or assets, conditions of sales, representations and warranties. Prospective investors are invited to request an application to register for pre-qualification. Summary profiles of each SOE are available at ZPA at the address below:

NAME OF SOE	LOCATION	ACTIVITY	TURNOVER ON 31.3.92 in Million K
AFE LIMITED*	HQ: Lusaka, Branches: Chipata, Choma, Kabwe	Importation and Sale of Agricultural Equipment.	386
• EAGLE TRAVEL LTD	HQ:lusaka, Branches: Chingola, Kabwe, Kitwe, Livingstone, Luanshya, Mufulira, Lusaka, Ndola.	International and Local travel arrangements under IATA.	70
MONARCH (Z) LTD*	Kitwe	Manufacture of steel building materials and galvanised holloware.	330
NATIONAL DRUM AND CAN COMPANY LTD	Ndola	Manufacture of steel drums and metal cans.	148
PRIME MARBLE PRODUCTS LTD	Lusaka	Quarrying and processing of marble and stone of all kinds.	NG
ZAMBIA CERAMICS	Kitwe	Production of ceramic tableware, tiles and sanitary-ware.	90
• AUTOCARE LIMITED	HQ: Lusaka, Branches: Kabwe, Kitwe, Livingstone, Lusaka, Ndola.	Automotive vehicle repairs, sale of new and second-hand parts and cars, driving sch.	86
CLEANWELL DRY CLEANERS LTD	Lusaka, with two other sales outlets.	Dry-cleaning services.	18
COOLWELL SYSTEMS LIMITED	Lusaka	Installation, maintenance and repair of air condition and refrigeration systems.	32
NORGROUP PLASTICS*	Ndola	Manufacture of plastic products, crates, jerry cans, bottles, bowls, buckets etc.	113
CRUSHED STONE SALES LIMITED	Lusaka	Mining, processing and distribution of industrial materials for agricultural and manufacturing purposes.	65

ZUVA ZAMBIA LTD	Lusaka= Workshop; Stockists= Ndola, Lusaka, Luanshya; Retail outlet= Pamodzi Hotel, Agencies= Zambia Airways.	Manufacture & sale of African style finished jewellary from silver & semi-precious stones	**14**
MWINILUNGA CANNERIES LTD	Mwinilunga	Processing and marketing of fresh fruits, pineapples.	**OS**
ZAMBIA CLAY INDUSTRIES LTD	Kalulushi	Manufacturers of bricks. [Capacity= 60million bricks]	**D**
CONSOLIDATED TYRE SERVICES LTD*	Kitwe + 7 other sites	Retreading of tyres and distribution of other auto parts.	**381**
GENERAL PHARMACEUTICALS LIMITED	Kabwe	Manufacture of intravenous fluids and oral rehyd. salts.	**97**
ZAMBIA MALTINGS LIMITED	Mwembeshi, near Lusaka	Development of Agricultural land and production of barley, ceo, sunflower, maize, cotton.	**21**

KEY: NG= Not Given, OS= Operations Suspended, D= Dormant, * = indicates firms that are also part of our survey of 43 Companies referred to in chapters 3 and 7.

The procedure for divestment of these companies will be in accordance with the Privatisation Act enacted in July 1992. The Zambia Privatisation Agency is a statutory body established pursuant to the Act.

Any party with an interest in a SOE (ie minority shareholding, pre-emptive right, credit right, or any other legal right) must make a claim to the Agency within a period of 30 days from the date of publication of the notice in the Republic of Zambia Government Gazette. Such parties who fail to make a claim shall be deemed to have relinguished all their rights and interests.

Contact with any of the SOEs and visits to their premises for purposes of due diligence investigations are prohibited until explicitly authorised and arranged by ZPA.

DIRECTOR
ZAMBIA PRIVATISATION AGENCY
13TH FLOOR FINDECO HOUSE
PO BOX 30819 LUSAKA, ZAMBIA
TEL 226604/221886/225269
FAX 225270, TELEX ZA 40461

The deadline for submissions of applications to pre-qualify is 12th October 1992.

SOURCE: THE WEEKLY POST, 11-17 SEPTEMBER 1992.

NOTE: THE FIRST TRANCHE, ACCORDING TO ZPA DOCUMENTS, HAS 20 SOEs. BUT THREE OF THESE— NKWAZI MANUFACTURING CO. LTD, POULTRY PROCESSING CO. LTD, AND ZAMBIA CONCRETE LTD— WERE NOT ADVERTISED.

APPENDIX 6.2: TRANCHES 2 TO 11 OF THE 134 ZAMBIAN SOEs TO BE PRIVATISED

Tranche 2

1. MPONGWE DEVELOPMENT COMPANY LTD
2. NATIONAL MILLING COMPANY LTD
3. ROP LIMITED
4. SUPA BAKING COMPANY LTD
5. ZAMBIA AGRICULTURAL DEVELOPMENT LTD
6. ZAMBIA SUGAR COMPANY LTD
7. CHILANGA CEMENT LTD
8. KAFUE TEXTILES (Z) LTD

Tranche 3

1. INDECO MILLING LIMITED
2. LINT COMPANY OF ZAMBIA LTD
3. NANGA FARMS LTD
4. NATIONAL TOBACCO COMPANY LTD
5. ZAMBIA BREWERIES LTD
6. ZAMBIA HORTICULTURAL PRODUCTS LTD
7. CONSUMER BUYING CORPORATION OF ZAMBIA LTD
8. ZAMBIA NATIONAL WHOLESALE AND MARKETING CO. LTD

Tranche 4

1. AMALGAMATED MILLING COMPANY LTD
2. ANTELOPE MILLING
3. CHIMANGA CHANGA MILLING
4. KABWE MILLING

Tranche 5

1. KAWAMBWA TEA COMPANY LTD
2. MEMACO FARMS LTD
3. NATIONAL BREWERIES LTD
4. PREMIUM OIL INDUSTRIES LTD

5. JAMAS MILLING
6. OLYMPIC MILLING
7. NCHANGA FARMS
8. NIEC FARMS LTD
9. ZAMBIA CASHEW COMPANY LTD
10. ZAMBEZI SAW MILLS (1968) LTD
11. MIL CONSTRUCTION LTD
12. ZAMBIA ENGINEERING AND CONTRACTING LTD
13. LUBLEND LIMITED
14. ZAL ELEVATORS
15. ZAMBIA NATIONAL COMMERCIAL BANK LTD
16. NATIONAL HOME STORES LTD
17. AFRICA BOUND LTD
18. LAKE HOTELS LTD
19. ZAMBIA HOTEL PROPERTIES LTD
20. MULUNGUSHI TRAVELLERS LTD

5. UNITED MILLING LTD
6. NATIONAL DRUG COMPANY LTD
7. BUILDWELL CONSTRUCTION LTD
8. MPELEMBE PROPERTIES LTD
9. ZAMBIA STEEL AND BUILDING SUPPLIES LTD
10. MIL ENGINEERING AND TOOLING LTD
11. KABWE INDUSTRIAL FABRICS LTD
12. MUNDAWANGA ZOO & BOTANICAL GARDENS
13. NATIONAL HOTELS DEVELOPMENT CORPORATION LTD
14. MWAISENI STORES LTD
15. REDIRECTION PLACEMENT LTD
16. LUSAKA URBAN RAIL TRANSPORT LTD

Tranche 6

1. ZAMBIA COFFEE COMPANY LTD
2. ZAMBIA COLD STORAGE CORPORATION LTD
3. ZAMBIA SEED COMPANY LTD
4. AFRICA INTERNATIONAL INSURANCE SERVICES LTD
5. DEVELOPMENT BANK OF ZAMBIA LTD
6. EXPORT AND IMPORT BANK OF ZAMBIA LTD
7. ZAMBIA NATIONAL BUILDING SOCIETY LTD
8. STATE INSURANCE MEDICAL TRUST LTD
9. ZAMBIA STATE INSURANCE CORPORATION LTD
10. ZAMBIA STATE FINANCING COMPANY LTD
11. ZAMBIA STATE PROPERTY DEVELOPMENT COMPANY LTD
12. ZAMBIA STATE SECURITY LTD
13. CONTRACT HAULAGE LTD
14. UNITED BUS COMPANY OF ZAMBIA LTD
15. MPULUNGU HARBOUR CORPORATION LTD
16. MINDECO SMALL MINES LTD

Tranche 7

1. KAFIRONDA LIMITED
2. ZAMBIA OXYGEN LTD
3. KAGEM MINING
4. KARIBA MINERALS LTD
5. KARIBA AMETHYST MARKETING LTD
6. RESERVED MINERALS CORPORATION LTD GROUP
7. ZAMBIA EMERALD INDUSTRIES LTD
8. CITY RADIO AND REFRIGERATION SUPPLIES LTD
9. INTERCONTINENTAL TRAVEL LTD
10. LUANGWA INDUSTRIES LTD

Tranche 8

1. MIL SAW-MILLING AND JOINERY LTD
2. ZAMBIA FORESTRY AND FOREST INDUSTRIES CORP. LTD
3. LUSAKA ENGINEERING COMPANY LTD
4. INDO-ZAMBIA BANK LTD
5. MANSA BATTERIES LIMITED
6. KAPIRI GLASS PRODUCTS LTD
7. NIEC AGENCIES LTD
8. DUNLOP ZAMBIA LIMITED
9. MINE AIR SERVICES LIMITED
10. RYCUS HEAVY HAULAGE LIMITED

Tranche 9

1. NITROGEN CHEMICALS OF ZAMBIA LTD
2. DUNCAN GILBEY & MATHESON
3. ZAMBIA NATIONAL INSURANCE BROKERS LTD
4. MAAMBA COLLIERIES LIMITED
5. ANROS INDUSTRIES LIMITED
6. CIRCUIT SAFARIS LIMITED
7. LIVINGSTONE MOTOR ASSEMBLERS LTD
8. NATIONAL AIRPORTS CORPORATION LTD
9. ZAMCARGO ZAMBIA LIMITED

Tranche 10

1. ZIMCO PROPERTIES LTD
2. BP ZAMBIA LIMITED
3. ZAMLUBE RE-REFINERS LIMITED
4. METAL FABRICATORS OF ZAMBIA LTD
5. INDECO ESTATE DEVELOPMENT COMPANY LTD
6. NIEC OVERSEAS SERVICES ZAMBIA LTD
7. ENGINEERING SERVICES CORPORATION LTD

Tranche 11

1. ZAMBIA NATIONAL BROADCASTING CORPORATION LTD
2. AGIP (Z) LIMITED
3. ZAMBIA HOUSING DEVELOPMENT FUND LTD
4. MEMACO GROUP
5. MEMACO TRADING LTD, LONDON
6. MEMACO TRADING LTD, USA
7. MEMACO SERVICES LIMITED
8. ZAMBIA AIRWAYS CORPORATION LTD
9. NATIONAL AIR CHARTERS (Z) LTD
10. ZAMBIA NATIONAL SHIPPING COMPANY LTD

NEGATIVE LIST

1. INDENI PETROLEUM REFINERY COMPANY LTD
2. TAZAMA PIPE LINES LTD
3. ZIMOIL DIVISION
4. POSTS AND TELECOMMUNICATIONS CORPORATION LTD
5. ZAMBIA ELECTRICITY SUPPLY CORPORATION LTD
6. ZAMBIA RAILWAYS

SOURCE: ZAMBIA PRIVATISATION AGENCY: DIVESTITURE SEQUENCE PLAN, 1992.

Appendix 6.3 TERMS OF REFERENCE IN EXAMINING ZAMBIAN PARASTATAL COMPANIES FOR PRIVATISATION

A: GERMAN CONTRIBUTION TO THE REFORM PROGRAMME.

The German contribution is integrated into the Economic Recovery Programme (ERP) financed by the World Bank, which was implemented in 1989. In the framework of this programme, a restructuring of the Zambian economy is taking place. Extensive privatisation of parastatal enterprises is aimed at supporting and promoting competition and to raise efficiency and innovative potential of the Zambian economy. According to the time schedule of the World Bank, it is intended to privatise most of the parastatals of the holding company, ZIMCO, within 5 years.

B: TERMS OF REFERENCE.

The objective of the studies is to prepare the framework for divestment of the company by analysing the current situation, proposing options for privatisation, performing company valuations and preparing memoranda for sale for potential investors. It must be emphasised that privatisation is the cardinal option for consideration. Other options will only be considered in exceptional circumstances. Should privatisation not be the feasible option, the consultants may recommend other courses of action which must be acceptable to the participating parties. These options must be defined in a clear time and activity plan for implementation. This would mention all responsible persons and be agreed by all parties concerned.

The existing position of the company including a trend analysis of the figures of the last 3 to 4 years has to be briefly documented. An evaluation of the company's future prospects has to be formulated considering the foreseeable trends of the new market situation and of the private business conditions. It will be necessary to forecast results and figures for the years 1993, 1994, and 1995. This would indicate the future development of the company. The assumptions upon which the forecast has been made must be presented.

The economic forecasts, valuation of the company and the suggestions of the study have to be completed through proposals and support given by a sector expert who is in command of the necessary technical knowledge. Consultancy and the elaboration of the study have to take place in Zambia at the appropriate premises to ensure that the participating parties accept and comprehend the results. It is assumed that the legal, fiscal and regulatory framework would be taken into account. These aspects shall be solved in cooperation with the local expert.

C: GRID FOR THE ANALYSIS OF THE SOE'S CURRENT SITUATION.

1. **Location:** regional aspects, possibilities for expansion, transport, infrastructure, the supply of public utilities and contamination of the environment should be described and qualified. Governmental impositions have to be mentioned.

2. **Market Situation and Competition:** the product range and rendered services have to be investigated in view of the clientele. The competitive environment, the market potential, both domestic and export, and the price trends should also be analysed. Within this, changes in the past and future developments due to the market and competition situation have

to be clarified.

3. **Situation of the Supply Market:** in the recent past, the supply of raw materials, investment goods and spare parts was a bottle-neck due to the shortage of foreign exchange and the general supply situation in the country. The current and expected changes due to the new economic situation have to be discussed.

4. **Production and Work Flow:** supply of products, storage, condition of machinery, methods of production, work flow and capacity utilisation have to be screened under competitive conditions.

5. **Organisation and Management:** structure and flow of organisation and the management system (management organisation, management policy etc) shall be presented briefly.

6. **Personnel Situation:** number of persons employed, age and degree of education and qualifications shall be mentioned. Conditions of service, and terms of redundancy packages and pensions shall be described. The effect of privatisation on the employee numbers and the options available to the company shall be described. The estimated costs to the company shall be quantified.

7. **Financial Situation:** the development of assets, profits, cost and liquidity in nominal and real terms has to be described for the past 3 years. Gross margins of individual production units and/or product groups are to be determined. Gearing ratios and an analysis of the company's lending and debt servicing should be described.

8. **Strengths and Weaknesses of the Enterprise:** currently known strengths and weaknesses of the enterprise are to be shown here. Where the company is performing poorly the reasons must be identified under the headings listed above.

9. **Legal and Regulatory Framework:** the legal and regulatory framework within which the company operates is to be discussed. Constraints to privatisation should be identified early.

10. **Social Responsibility:** describe areas where the company supports social services.

D: FINAL REPORT ON EACH SOE.

The final report (on each parastatal) will include the following:

* An analysis of the existing position and future potential of the company.
* Proposed options for divestiture with the reasons for the recommended option.
* The company valuation
* A list of potential investors identified during the course of the study.

Source: Document signed on 20 February 1992 by Honourable Depak K A Patel— then Deputy Minister for Trade, Commerce and Industry— and the ZIMCO Group Executive Director for Energy and Corporate Planning, and members of the German Consultants GTZ. The document was officially obtained by this author for current research purposes.

APPENDIX 7.1 : FINANCIAL RATIOS USED IN CHAPTERS 7 AND 8 AND THEIR RELEVANT DEFINITIONS.

Profitability Ratios:

1 Return on Sales or Net Profit Margin = $\frac{\text{Net Profit}}{\text{Net Sales}}$ (%)

2 Total Asset Turnover = $\frac{\text{Net Sales}}{\text{Total Assets}}$ (Number of Times = T)

3 Return on Assets = $\frac{\text{Net Income}}{\text{Total Assets}}$ (%)

4 Sales to Fixed Assets = $\frac{\text{Net Sales}}{\text{Net Fixed Assets}}$ (% or T)

5 Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Net Sales}}$ (%)

6 Net Income to Net Worth = $\frac{\text{Net Income}}{\text{Owners Equity}}$ (%)

Liquidity or Short-term Solvency Ratios:

1 Net Working Capital = Current Assets - Current Liabilities

2 Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ (T)

3 Quick Ratio or Acid-test Ratio = $\frac{\text{Current Assets - Ending Inventory}}{\text{Current Liabilities}}$ (%)

4 Sales to Net Working Capital Ratio = $\frac{\text{Net Sales}}{\text{Average Working Capital}}$ (T)
where average working capital is defined as Beginning W/Capital + Ending W/Capital divided by 2.

Turnover or Activity or Efficiency Ratios:

1 Accounts Receivable Turnover = $\frac{\text{Sales}}{\text{Accounts Receivable}}$ (T)

2 Average Collection period of Receivables = $\frac{365}{\text{Accts Receiv Turnover}}$ (Days)

3 Inventory Turnover = $\frac{\text{Sales}}{\text{Average Inventory}}$ (T)

4 Day's Inventory = $\frac{365}{\text{Inventory Turnover Ratio}}$ (Days)

Debt or Leverage or Capital Structure or Borrowing Capacity or Long-term Solvency or Financial Structure Ratios:

1 Debt Ratio = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$ (%)

2 Debt to Equity Ratio = $\frac{\text{Total Liabilities}}{\text{Owners' Equity}}$ (%)

3 Fixed Assets to Worth = $\frac{\text{Net Fixed Assets}}{\text{Tangible net worth=Owners' Equity}}$ (%)

Other Measures:

1 Total per unit costs = $\frac{\text{Cost of goods sold}}{\text{Production Level}}$

2 Unit Production costs = $\frac{\text{Total Variable Costs (TVC) + Total Fixed Costs (TFC)}}{\text{Production Level}}$

APPENDIX 7.2 NAMES, LOCATIONS, YEAR OF ESTABLISHMENT, OWNERSHIP CATEGORY AND IMPORT-DEPENDENCE OF THE 43 SURVEYED MANUFACTURING COMPANIES IN ZAMBIA.

NAME OF COMPANY	LOCATION	SUB-SECTOR	YEAR	TYPE OF FIRM	IMPORT DEPENDENCE (%) (VOLUME) 1988	1989	1990	1991
1. AFE LIMITED	LUSAKA	6	1962	PARASTATAL	80	80	80	80
2. BOART ZAMBIA LIMITED	NDOLA	6	1963	MULTINATIONAL	98	98	98	98
3. BONAR COLWYN LIMITED	NDOLA	4	1964	MULTINATIONAL	10	10	10	10
4. CENTURY PACKAGING LTD	NDOLA	1	1975	PRIVATE, ZAMBIAN	90	90	90	85
5. CHEMMIMEX ZAMBIA LTD	KITWE	1	NA	PRIVATE, ZAMBIAN	65	65	65	65
6. CHLORIDE ZAMBIA LTD	KITWE	1	NA	MULTINATIONAL	35	35	40	40
7. COLGATE PALMOLIVE	NDOLA	5	1967	MULTINATIONAL	74	74	74	74
8. CONSOLIDATED TYRE LTD	KITWE	1	1972	PARASTATAL	90	90	90	90
9. COPPERBELT BOTTLING LTD	KITWE	3	1950	PRIVATE, JV [L+F]	10	10	10	10
10. DELTA ZAMBIA LIMITED	NDOLA	6	1953	PRIVATE, ZAMBIAN	90	90	90	90
11. FREBER LIMITED	KITWE	1	NA	PRIVATE, ZAMBIAN	70	70	70	70
12. GAMMA PHARMACEUT LTD	NDOLA	5	1977	PRIVATE, JV [L+F]	35	35	35	35
13. INDECO MILLING	NDOLA	3	1967	PARASTATAL	2	2	2	2
14. INDENI PETROLEUM LTD	NDOLA	1	1973	PARASTATAL	100	100	100	100
15. INTERNATIONAL CHEMI LTD	LUSAKA	5	1968	PRIVATE, ZAMBIAN	80	80	70	70
16. JOHNSON & JOHNSON LTD	NDOLA	5	1974	MULTINATIONAL	99	99	99	99
17. MEDWICH CLOTHING LTD	KITWE	4	1967	PRIVATE, ZAMBIAN	10	10	10	10
18. MERCANTILE PRINTERS LTD	NDOLA	2	NA	PRIVATE, ZAMBIAN	85	85	85	85
19. MONARCH ZAMBIA LIMITED	KITWE	6	1968	PARASTATAL	78	78	78	78
20. MONTEREY PRINTING LTD	NDOLA	2	1959	PRIVATE, ZAMBIAN	88	88	88	88
21. MUKUBA TEXTILES LIMITED	NDOLA	4	1981	PRIVATE, JV [L+F]	90	90	90	50
22. MUTENDE MINING EQUT LTD	KITWE	6	1988	PRIVATE, ZAMBIAN	80	80	80	80
23. NATIONAL BREWERIES LTD	KITWE	3	1968	PARASTATAL	15	15	15	15
24. NDOLA LIME LIMITED	NDOLA	1	1931	PARASTATAL	0	0	0	0
25. NDOLA WEAVING TEXT LTD	NDOLA	4	1981	PRIVATE, ZAMBIAN	80	70	60	50
26. NICHOLAS LABORATO LTD	NDOLA	5	1968	MULTINATIONAL	60	60	60	60
27. NORGROUP PLASTICS LTD	NDOLA	1	1978	PARASTATAL	100	100	100	100
28. PERWAY INDUSTRIES LTD	KITWE	6	1979	PRIVATE, ZAMBIAN	90	90	80	80
29. PIGOTT & MASKEW LTD	KITWE	1	1964	PRIVATE, ZAMBIAN	95	95	95	90
30. PIPER CLOTHING LIMITED	NDOLA	4	1962	PRIVATE, ZAMBIAN	50	50	50	50
31. REFINED OIL PRODUCTS LTD	NDOLA	3	1975	PARASTATAL	95	95	95	95
32. SAKIZA SPINNING LTD	KITWE	4	1986	PRIVATE, ZAMBIAN	100	100	100	100
33. SCAW LIMITED	KITWE	6	1948	PARASTATAL	60	60	60	60
34. SPECIALITY FOODS LTD	KITWE	3	1965	PRIVATE, ZAMBIAN	40	40	40	35
35. SWARP SPINNING MILLS LTD	NDOLA	4	1981	PRIVATE, ZAMBIAN	1	1	1	1
36. TESOLIN AND DARI LTD	KITWE	6	1965	PRIVATE, ZAMBIAN	90	90	95	95
37. TITANIUM/BUFFALO P LTD	NDOLA	1	1965	PRIVATE, ZAMBIAN	90	90	90	90
38. VITAFOAM ZAMBIA LTD	NDOLA	1	1967	PRIVATE, ZAMBIAN	85	85	85	85
39. VITRETEX PAINTS LTD	NDOLA	1	1964	MULTINATIONAL	82	82	80	80
40. ZAFFICO LIMITED	NDOLA	2	1985	PARASTATAL	1	1	1	1
41. ZAMBEZI PAPER MILLS LTD	NDOLA	2	1979	PRIVATE, ZAMBIAN	80	80	80	80
42. ZAMBIA COLD STORAGE LTD	LUSAKA	3	1964	PARASTATAL	5	5	5	5
43. ZAMBIA SUGAR CO LTD	LUSAKA	3	1968	PARASTATAL	5	5	5	5

NOTES: JV, L+F = JOINT VENTURE BETWEEN LOCAL AND FOREIGN OWNERS.

SUB-SECTORS: 1 = CHEMICALS, PLASTICS AND PETROLEUM PRODUCTS (12 FIRMS); 2 = WOOD AND PAPER PRODUCTS (4 FIRMS); 3 = AGRO-FOOD AND DRINKS (7 FIRMS); 4 = TEXTILES AND WEARING APPAREL (7 FIRMS); 5 = HEALTHCARE/PHARMACEUTICALS (5 FIRMS); 6 = METAL AND MACHINERY MANUFACTURE (8 FIRMS).

SOURCE: THE 43-COMPANY SURVEY

Appendix 7.3 NAMES, OWNERSHIP CATEGORY AND RANKING OF THE 9 MOST VITAL PROBLEMS FACING ZAMBIAN FIRMS.

NAME OF COMPANY	SUB-SECTOR	TYPE OF FIRM	THE 9 MAJOR PROBLEMS AND INDIVIDUAL RANKING								
			MKT	FOREX	TALE	POLICY	COMPET	CREDIT	TRANS	RATES	REMIT
1. AFE LIMITED	6	PARASTATAL	-	1	-	4	3	-	-	2	-
2. BOART ZAMBIA LIMITED	6	MULTINATIONAL	6	1	9	2	9	5	8	7	3
3. BONAR COLWYN LIMITED	4	MULTINATIONAL	7	1	6	5	3	4	6	2	8
4. CENTURY PACKAGING LTD	1	PRIVATE, ZAMB	9	2	9	1	4	9	9	3	9
5. CHEMMIMEX ZAMBIA LTD	1	PRIVATE, ZAMB	-	1	-	2	-	-	-	3	-
6. CHLORIDE ZAMBIA LTD	1	MULTINATIONAL	9	6	8	1	5	7	4	2	3
7. COLGATE PALMOLIVE	5	MULTINATIONAL	4	3	4	4	4	4	2	4	**1**
8. CONSOLIDATED TYRE LTD	1	PARASTATAL	2	3	7	6	9	5	1	4	9
9. COPPERBELT BOTTLING LTD	3	PRIVATE, JV	9	1	9	3	9	9	5	2	9
10. DELTA ZAMBIA LIMITED	6	PRIVATE, ZAMB	-	1	-	3	-	-	-	2	-
11. FREBER LIMITED	1	PRIVATE, ZAMB	7	3	5	4	8	2	6	1	9
12. GAMMA PHARMACEUT LTD	5	PRIVATE, JV	-	1	-	2	-	3	-	4	-
13. INDECO MILLING	3	PARASTATAL	-	-	-	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	1	PARASTATAL	-	-	-	-	-	-	-	-	-
15. INTERNATIONAL CHEMI LTD	5	PRIVATE, ZAMB	9	1	8	3	4	6	5	2	7
16. JOHNSON & JOHNSON LTD	5	MULTINATIONAL	6	1	7	4	8	9	5	2	3
17. MEDWICH CLOTHING LTD	4	PRIVATE, ZAMB	-	1	-	-	-	2	3	4	-
18. MERCANTILE PRINTERS LTD	2	PRIVATE, ZAMB	-	-	-	-	-	-	-	-	-
19. MONARCH ZAMBIA LIMITED	6	PARASTATAL	-	-	-	-	-	-	-	-	-
20. MONTEREY PRINTING LTD	2	PRIVATE, ZAMB	-	1	-	2	-	-	-	3	-
21. MUKUBA TEXTILES LIMITED	4	PRIVATE, JV	-	3	-	1	2	-	-	4	-
22. MUTENDE MINING EQUT LTD	6	PRIVATE, ZAMB	-	1	-	2	-	3	-	4	-
23. NATIONAL BREWERIES LTD	3	PARASTATAL	9	7	8	1	3	4	6	2	5
24. NDOLA LIME LIMITED	1	PARASTATAL	5	1	9	**9**	4	9	3	2	9
25. NDOLA WEAVING TEXT LTD	4	PRIVATE, ZAMB	5	1	2	6	7	8	3	4	9
26. NICHOLAS LABORATO LTD	5	MULTINATIONAL	3	4	2	1	5	6	7	**8**	9
27. NORGROUP PLASTICS LTD	1	PARASTATAL	5	1	3	7	6	4	8	2	9
28. PERWAY INDUSTRIES LTD	6	PRIVATE, ZAMB	-	1	-	2	-	-	-	3	-

29. PIGOTT & MASKEW LTD	1	PRIVATE, ZAMB	8	1	9	2	6	7	5	3	4
30. PIPER CLOTHING LIMITED	4	PRIVATE, ZAMB	-	1	-	5	-	2	3	4	-
31. REFINED OIL PRODUCTS LTD	3	PARASTATAL	-	-	-	-	-	-	-	-	-
32. SAKIZA SPINNING LTD	4	PRIVATE, ZAMB	7	1	5	4	3	8	6	2	9
33. SCAW LIMITED	6	PARASTATAL	9	2	9	**9**	9	3	9	3	9
34. SPECIALITY FOODS LTD	3	PRIVATE, ZAMB	6	1	8	3	4	5	7	2	9
35. SWARP SPINNING MILLS LTD	4	PRIVATE, ZAMB	9	**9**	4	1	3	3	1	2	9
36. TESOLIN AND DARI LTD	6	PRIVATE, ZAMB	-	2	-	3	-	-	-	1	-
37. TITANIUM/BUFFALO P LTD	1	PRIVATE, ZAMB	-	1	-	-	-	-	-	2	-
38. VITAFOAM ZAMBIA LTD	1	PRIVATE, ZAMB	-	1	-	-	-	-	-	2	-
39. VITRETEX PAINTS LTD	1	MULTINATIONAL	-	-	-	-	-	-	-	-	-
40. ZAFFICO LIMITED	2	PARASTATAL	6	1	8	2	5	7	3	4	9
41. ZAMBEZI PAPER MILLS LTD	2	PRIVATE, ZAMB	-	-	4	1	2	-	-	3	-
42. ZAMBIA COLD STORAGE LTD	3	PARASTATAL	8	4	7	5	6	3	2	1	9
43. ZAMBIA SUGAR CO LTD	3	PARASTATAL	-	1	2	-	-	-	-	3	-

FACTOR SUM	148	72	152	110	131	137	117	108	161
FACTOR RANKING	**7**	**1**	**8**	**3**	**5**	**6**	**4**	**2**	**9**
TOTAL RESPONDING COMPANIES ON FACTOR	22	36	24	33	25	26	24	37	22
TOTAL MISSING VALUES ON THIS FACTOR	21	7	19	10	18	17	19	6	21
TOTAL 1ST RANKINGS ON THIS FACTOR	0	24	0	7	0	0	2	3	1
TOTAL 2ND RANKINGS ON THIS FACTOR	1	3	3	8	2	3	2	15	0
TOTAL 3RD RANKINGS ON THIS FACTOR	1	4	1	4	5	5	5	8	3
SUM OF 1ST+2ND+3RD RANKINGS OF FACTOR	2	31	4	19	7	8	9	26	4
TOTAL 4TH RANKINGS ON THIS FACTOR	1	2	3	5	5	4	1	9	1
TOTAL 5TH RANKINGS ON THIS FACTOR	3	0	2	3	3	3	3	0	1
TOTAL 8TH AND 9TH RANKINGS OF FACTOR	9	1	11	2	6	6	4	1	15
AVERAGE RANKING OF FACTOR BY ALL MANUFACTURING	8	1	7	3	5	6	4	2	9
AVERAGE RANKING OF FACTOR AMONG PARASTATALS	6	1	8	7	4	5	3	2	9
AVERAGE RANKING OF FACTOR AMONG PRIVATE FIRMS	8	1	7	2	5	6	4	3	9
AVERAGE RANKING OF FACTOR AMONG MULTINATIONALS	8	1	9	2	6	7	5	3	4

NOTES: — = NOT AVAILABLE, OR MISSING VALUES

FACTORS = PROBLEMS BEING RANKED: MKT= Lack of knowledge about foreign markets; FOREX= Lack of foreign exchange; TALE= Absence of adequate local management talent; POLICY= Inability to do any strategic planning due to the stop-go, unpredictable Zambian policy environment; COMPET= Stiff competition as a result of trade liberalisation; CREDIT= Inadequate credit and adjustment loans from Development Finance Institutions (DFIs); TRANS= Local transport is both costly and unreliable; RATES= Interest rates are too high; REMIT= Inability to remit dividends and royalties.

SOURCE OF DATA: 43-COMPANY SURVEY

SOURCE OF RANKING METHOD: JANKOWICZ A D (1991: P214)

APPENDIX 7.4 SURVEY RESULTS CONCERNING NAMES, OWNERSHIP CATEGORY AND EMPLOYMENT LEVELS IN THE MANUFACTURING SECTOR (ZAMBIA) FOR SELECTED YEARS.

NAME OF COMPANY	TYPE OF FIRM	EMPLOYMENT LEVEL					
		1983	1984	1986	1987	1989	1990
1. AFE LIMITED	PARASTATAL	-	-	-	-	-	-
2. BOART ZAMBIA LIMITED	MULTINATIONAL	297	295	298	298	292	289
3. BONAR COLWYN LIMITED	MULTINATIONAL	-	-	-	-	-	-
4. CENTURY PACKAGING LTD	PRIVATE, ZAMBIAN	-	-	68	71	87	96
5. CHEMMIMEX ZAMBIA LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
6. CHLORIDE ZAMBIA LTD	MULTINATIONAL	160	162	191	192	246	249
7. COLGATE PALMOLIVE	MULTINATIONAL	118	121	132	141	152	173
8. CONSOLIDATED TYRE LTD	PARASTATAL	-	-	-	-	-	-
9. COPPERBELT BOTTLING LTD	PRIVATE, JV [L+F]	455	433	407	386	363	393
10. DELTA ZAMBIA LIMITED	PRIVATE, ZAMBIAN	-	-	-	-	-	-
11. FREBER LIMITED	PRIVATE, ZAMBIAN	50	50	60	65	60	40
12. GAMMA PHARMACEUT LTD	PRIVATE, JV [L+F]	-	-	-	-	-	-
13. INDECO MILLING	PARASTATAL	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	PARASTATAL	387	393	392	395	402	407
15. INTERNATIONAL CHEMI LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
16. JOHNSON & JOHNSON LTD	MULTINATIONAL	-	-	53	55	62	68
17. MEDWICH CLOTHING LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
18. MERCANTILE PRINTERS LTD	PRIVATE, ZAMBIAN	-	-	87	87	136	141
19. MONARCH ZAMBIA LIMITED	PARASTATAL	-	-	-	-	-	-
20. MONTEREY PRINTING LTD	PRIVATE, ZAMBIAN	326	264	257	267	266	254
21. MUKUBA TEXTILES LIMITED	PRIVATE, JV [L+F]	126	118	144	167	190	213
22. MUTENDE MINING EQUT LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
23. NATIONAL BREWERIES LTD	PARASTATAL	547	648	657	644	612	688
24. NDOLA LIME LIMITED	PARASTATAL	-	-	-	-	-	-
25. NDOLA WEAVING TEXT LTD	PRIVATE, ZAMBIAN	176	183	189	196	202	207
26. NICHOLAS LABORATO LTD	MULTINATIONAL	28	29	24	23	23	22
27. NORGROUP PLASTICS LTD	PARASTATAL	82	72	88	77	97	95
28. PERWAY INDUSTRIES LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
29. PIGOTT & MASKEW LTD	PRIVATE, ZAMBIAN	279	306	305	305	307	313
30. PIPER CLOTHING LIMITED	PRIVATE, ZAMBIAN	-	-	-	-	-	-
31. REFINED OIL PRODUCTS LTD	PARASTATAL	1385	1403	1455	1312	624	596
32. SAKIZA SPINNING LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
33. SCAW LIMITED	PARASTATAL	-	-	-	-	-	-
34. SPECIALITY FOODS LTD	PRIVATE, ZAMBIAN	-	-	-	130	157	145
35. SWARP SPINNING MILLS LTD	PRIVATE, ZAMBIAN	-	-	-	-	-	-
36. TESOLIN AND DARI LTD	PRIVATE, ZAMBIAN	220	215	230	225	201	183
37. TITANIUM/BUFFALO P LTD	PRIVATE, ZAMBIAN	-	-	-	-	37	37
38. VITAFOAM ZAMBIA LTD	PRIVATE, ZAMBIAN	64	69	60	55	57	60
39. VITRETEX PAINTS LTD	MULTINATIONAL	119	121	123	118	127	131
40. ZAFFICO LIMITED	PARASTATAL	-	-	-	-	-	-
41. ZAMBEZI PAPER MILLS LTD	PRIVATE, ZAMBIAN	205	192	188	248	201	215
42. ZAMBIA COLD STORAGE LTD	PARASTATAL	929	905	619	603	557	541
43. ZAMBIA SUGAR CO LTD	PARASTATAL	-	-	-	-	-	-

- = NOT AVAILABLE.

SOURCE: THE 43-COMPANY SURVEY

APPENDIX 7.5 SURVEY RESULTS CONCERNING NAMES, OWNERSHIP CATEGORY AND SALES LEVELS IN THE MANUFACTURING SECTOR (ZAMBIA) FOR SELECTED YEARS.

NAME OF COMPANY	TYPE OF FIRM	SALES LEVEL, 000 KWACHA					
		1983	1984	1986	1987	1989	1990
1. AFE LIMITED	PARAST	8812	11577	18144	22407	57473	94653
2. BOART ZAMBIA LIMITED	MULTIN	11000	14000	71000	108000	118000	269000
3. BONAR COLWYN LIMITED	MULTIN	-	-	-	-	-	-
4. CENTURY PACKAGING LTD	PRIVAT	-	-	7312	13071	44391	44391
5. CHEMMIMEX ZAMBIA LTD	PRIVAT	-	-	-	-	-	-
6. CHLORIDE ZAMBIA LTD	MULTIN	5582	7249	14476	28705	58968	84080
7. COLGATE PALMOLIVE	MULTIN	15773	20015	58063	91813	247024	547589
8. CONSOLIDATED TYRE LTD	PARAST	10176	12684	22009	26912	66498	177667
9. COPPERBELT BOTTLING LTD	PRIVAT	18457	21508	33725	53251	90805	215899
10. DELTA ZAMBIA LIMITED	PRIVAT	1377	1273	4229	5330	15352	24355
11. FREBER LIMITED	PRIVAT	5400	6700	6900	7100	9800	8100
12. GAMMA PHARMACEUT LTD	PRIVAT	-	-	-	-	-	-
13. INDECO MILLING	PARAST	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	PARAST	10607	9961	17061	33342	50017	162771
15. INTERNATIONAL CHEMI LTD	PRIVAT	7625	8600	10975	25020	72831	150103
16. JOHNSON & JOHNSON LTD	MULTIN	-	-	9051	15035	40872	87273
17. MEDWICH CLOTHING LTD	PRIVAT	2325	3358	3682	4576	18105	26568
18. MERCANTILE PRINTERS LTD	PRIVAT	-	-	-	7838	19221	48223
19. MONARCH ZAMBIA LIMITED	PARAST	9446	10037	8454	-	-	-
20. MONTEREY PRINTING LTD	PRIVAT	10026	3738	26578	38473	727469	111485
21. MUKUBA TEXTILES LIMITED	PRIVAT	5125	4617	8246	23400	68935	123320
22. MUTENDE MINING EQUT LTD	PRIVAT	-	-	-	-	-	-
23. NATIONAL BREWERIES LTD	PARAST	28519	25985	60400	87298	246177	438623
24. NDOLA LIME LIMITED	PARAST	12485	14184	31977	72107	149011	214883
25. NDOLA WEAVING TEXT LTD	PRIVAT	6753	7309	12870	20649	39300	54005
26. NICHOLAS LABORATO LTD	MULTIN	-	-	-	-	-	-
27. NORGROUP PLASTICS LTD	PARAST	2034	2728	4419	8595	21212	29126
28. PERWAY INDUSTRIES LTD	PRIVAT	-	-	-	-	-	-
29. PIGOTT & MASKEW LTD	PRIVAT	7313	7425	25016	40121	56717	127310
30. PIPER CLOTHING LIMITED	PRIVAT	5520	5630	4795	6766	24380	61751
31. REFINED OIL PRODUCTS LTD	PARAST	55677	73270	147333	262739	262525	513682
32. SAKIZA SPINNING LTD	PRIVAT	-	-	-	-	-	-
33. SCAW LIMITED	PARAST	-	-	-	-	-	-
34. SPECIALITY FOODS LTD	PRIVAT	-	-	9228	4991	59701	75215
35. SWARP SPINNING MILLS LTD	PRIVAT	-	1804	23533	48506	234265	551843
36. TESOLIN AND DARI LTD	PRIVAT	3163	5010	11746	11219	26419	66055
37. TITANIUM/BUFFALO P LTD	PRIVAT	-	-	-	-	15991	29236
38. VITAFOAM ZAMBIA LTD	PRIVAT	3261	3229	6128	6700	23968	59659
39. VITRETEX PAINTS LTD	MULTIN	6440	6447	26717	42335	92114	198890
40. ZAFFICO LIMITED	PARAST	-	-	-	-	-	-
41. ZAMBEZI PAPER MILLS LTD	PRIVAT	7827	7600	21639	24751	51676	133095
42. ZAMBIA COLD STORAGE LTD	PARAST	11811	14887	16300	23542	68703	136032
43. ZAMBIA SUGAR CO LTD	PARAST	-	-	-	-	-	-

- = NOT AVAILABLE.

SOURCE: THE 43-COMPANY SURVEY

APPENDIX 7.6 SURVEY RESULTS CONCERNING NAMES, OWNERSHIP CATEGORY AND PROFIT LEVELS IN THE MANUFACTURING SECTOR (ZAMBIA) FOR SELECTED YEARS.

NAME OF COMPANY	TYPE OF FIRM	PROFIT LEVEL, 000 KWACHA					
		1983	1984	1986	1987	1989	1990
1. AFE LIMITED	PARAST	-527	-2506	13014	4640	8760	14294
2. BOART ZAMBIA LIMITED	MULTIN	1000	1000	26000	29000	25000	61000
3. BONAR COLWYN LIMITED	MULTIN	-	-	-	-	-	-
4. CENTURY PACKAGING LTD	PRIVAT	-	-	49	64	1568	6897
5. CHEMMIMEX ZAMBIA LTD	PRIVAT	-	-	-	-	-	-
6. CHLORIDE ZAMBIA LTD	MULTIN	930	1268	3083	5212	10670	20964
7. COLGATE PALMOLIVE	MULTIN	2928	2998	14601	22948	59641	158463
8. CONSOLIDATED TYRE LTD	PARAST	-304	1189	1020	624	10264	34499
9. COPPERBELT BOTTLING LTD	PRIVAT	1487	1551	2772	9886	41313	65289
10. DELTA ZAMBIA LIMITED	PRIVAT	199	-49	586	835	2742	1517
11. FREBER LIMITED	PRIVAT	20	25	30	50	55	78
12. GAMMA PHARMACEUT LTD	PRIVAT	-	-	-	-	-	-
13. INDECO MILLING	PARAST	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	PARAST	0	0	0	0	0	14661
15. INTERNATIONAL CHEMI LTD	PRIVAT	537	837	1356	2038	6020	10400
16. JOHNSON & JOHNSON LTD	MULTIN	-	-	2209	2731	6418	13063
17. MEDWICH CLOTHING LTD	PRIVAT	-289	256	750	296	1589	1424
18. MERCANTILE PRINTERS LTD	PRIVAT	-	-	-	49	463	936
19. MONARCH ZAMBIA LIMITED	PARAST	94	1117	858	-	-	-
20. MONTEREY PRINTING LTD	PRIVAT	244	-407	705	-2801	-1879	-2804
21. MUKUBA TEXTILES LIMITED	PRIVAT	583	-440	1986	7030	12542	8695
22. MUTENDE MINING EQUT LTD	PRIVAT	-	-	-	-	-	-
23. NATIONAL BREWERIES LTD	PARAST	2932	1858	7376	8905	35761	50788
24. NDOLA LIME LIMITED	PARAST	925	1033	-2567	8838	32357	81331
25. NDOLA WEAVING TEXT LTD	PRIVAT	1815	1592	4719	4314	3350	4686
26. NICHOLAS LABORATO LTD	MULTIN	-	-	-	-	-	-
27. NORGROUP PLASTICS LTD	PARAST	84	184	578	726	1216	1524
28. PERWAY INDUSTRIES LTD	PRIVAT	-	-	-	-	-	-
29. PIGOTT & MASKEW LTD	PRIVAT	2236	1119	5726	10629	8693	12596
30. PIPER CLOTHING LIMITED	PRIVAT	504	672	4280	1400	1600	11282
31. REFINED OIL PRODUCTS LTD	PARAST	1134	5714	4190	4746	7148	69392
32. SAKIZA SPINNING LTD	PRIVAT	-	-	-	-	-	-
33. SCAW LIMITED	PARAST	-	-	-	-	-	-
34. SPECIALITY FOODS LTD	PRIVAT	-	-	800	129	1305	1226
35. SWARP SPINNING MILLS LTD	PRIVAT	-	-	-	-	-	-
36. TESOLIN AND DARI LTD	PRIVAT	109	243	736	474	1320	2614
37. TITANIUM/BUFFALO P LTD	PRIVAT	-	-	-	-	794	994
38. VITAFOAM ZAMBIA LTD	PRIVAT	349	400	1145	1374	3820	10847
39. VITRETEX PAINTS LTD	MULTIN	940	807	5172	9229	26841	66865
40. ZAFFICO LIMITED	PARAST	-	-	-	-	-	-
41. ZAMBEZI PAPER MILLS LTD	PRIVAT	2101	1418	8372	3589	-424	15702
42. ZAMBIA COLD STORAGE LTD	PARAST	-4676	-827	12229	-6055	3031	-2940
43. ZAMBIA SUGAR CO LTD	PARAST	-	-	-	-	-	-

- = NOT AVAILABLE.

SOURCE: THE 43-COMPANY SURVEY

APPENDIX 7.7 SURVEY RESULTS CONCERNING NAMES, OWNERSHIP CATEGORY AND BREAK-DOWN OF CURRENT ASSETS (IN PERCENTAGES) FOR SELECTED YEARS.

NAME OF COMPANY	TYPE OF FIRM	CASH AS PERCENTAGE TOTAL CURRENT ASSETS					
		1983	1984	1986	1987	1989	1990
1. AFE LIMITED	PARAST	.7	.4	2.8	1.8	15.4	2.2
2. BOART ZAMBIA LIMITED	MULTIN	0	23	33.9	58.2	21.2	13.5
3. BONAR COLWYN LIMITED	MULTIN	-	-	-	-	-	-
4. CENTURY PACKAGING LTD	PRIVAT	-	-	.1	1.7	2	1.3
5. CHEMMIMEX ZAMBIA LTD	PRIVAT	-	-	-	-	-	-
6. CHLORIDE ZAMBIA LTD	MULTIN	32.3	44.4	31.6	25.9	34.9	36.2
7. COLGATE PALMOLIVE	MULTIN	15.5	10.1	9.4	1.7	.1	0
8. CONSOLIDATED TYRE LTD	PARAST	4.6	26.2	2.9	1.5	0	0
9. COPPERBELT BOTTLING LTD	PRIVAT	13	2.2	2.3	.1	3.9	6.9
10. DELTA ZAMBIA LIMITED	PRIVAT	34.4	15	7.8	.5	4.8	.1
11. FREBER LIMITED	PRIVAT	.1	.1	.1	.1	.1	.1
12. GAMMA PHARMACEUT LTD	PRIVAT	-	-	-	-	-	-
13. INDECO MILLING	PARAST	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	PARAST	30.8	4.2	.1	16.5	.1	8.8
15. INTERNATIONAL CHEMI LTD	PRIVAT	.7	2.6	4.7	.7	.1	.1
16. JOHNSON & JOHNSON LTD	MULTIN	-	-	14.5	24.8	15.9	9.3
17. MEDWICH CLOTHING LTD	PRIVAT	3.9	12.5	.1	11.7	9.7	.2
18. MERCANTILE PRINTERS LTD	PRIVAT	-	-	-	0	3.9	5.1
19. MONARCH ZAMBIA LIMITED	PARAST	-	-	-	-	-	-
20. MONTEREY PRINTING LTD	PRIVAT	30.6	9	.1	.1	.1	.1
21. MUKUBA TEXTILES LIMITED	PRIVAT	.1	.1	.1	.1	.1	.1
22. MUTENDE MINING EQUT LTD	PRIVAT	-	-	-	-	-	-
23. NATIONAL BREWERIES LTD	PARAST	14.3	19	30.3	10.5	5	7.4
24. NDOLA LIME LIMITED	PARAST	.1	.1	7	2.5	21.2	3.1
25. NDOLA WEAVING TEXT LTD	PRIVAT	2.1	.1	1.3	.1	0	1.7
26. NICHOLAS LABORATO LTD	MULTIN	-	-	-	-	-	-
27. NORGROUP PLASTICS LTD	PARAST	.1	.1	.1	.1	6.9	.1
28. PERWAY INDUSTRIES LTD	PRIVAT	-	-	-	-	-	-
29. PIGOTT & MASKEW LTD	PRIVAT	31.2	39.3	24.6	47.7	14.5	7.3
30. PIPER CLOTHING LIMITED	PRIVAT	31.6	37.2	25	28.2	8.7	6
31. REFINED OIL PRODUCTS LTD	PARAST	3.3	.1	.1	.1	.1	.1
32. SAKIZA SPINNING LTD	PRIVAT	-	-	-	-	-	-
33. SCAW LIMITED	PARAST	-	-	-	-	-	-
34. SPECIALITY FOODS LTD	PRIVAT	-	-	5.7	4.5	.1	3.7
35. SWARP SPINNING MILLS LTD	PRIVAT	-	-	.1	.1	.1	.1
36. TESOLIN AND DARI LTD	PRIVAT	.1	.1	.1	.1	.1	.1
37. TITANIUM/BUFFALO P LTD	PRIVAT	-	-	-	-	30.7	24.6
38. VITAFOAM ZAMBIA LTD	PRIVAT	56.8	33	21.8	.1	17	8
39. VITRETEX PAINTS LTD	MULTIN	5.2	5.2	0	.1	.1	.1
40. ZAFFICO LIMITED	PARAST	-	-	-	-	-	-
41. ZAMBEZI PAPER MILLS LTD	PRIVAT	.1	.1	25.2	5.4	2	1.3
42. ZAMBIA COLD STORAGE LTD	PARAST	17.7	12.5	10	12.4	13.7	9.3
43. ZAMBIA SUGAR CO LTD	PARAST	-	-	-	-	-	-

NAME OF COMPANY	TYPE OF FIRM	ACCOUNTS RECEIVABLE AS PERCENTAGE TOTAL CURRENT ASSETS					
		1983	1984	1986	1987	1989	1990
1. AFE LIMITED	PARAST	8.9	12.2	10.3	35	33.3	47.7
2. BOART ZAMBIA LIMITED	MULTIN	28.6	15.4	29	13.2	22	30
3. BONAR COLWYN LIMITED	MULTIN	-	-	-	-	-	-
4. CENTURY PACKAGING LTD	PRIVAT	-	-	42.2	29.7	49	60
5. CHEMMIMEX ZAMBIA LTD	PRIVAT	-	-	-	-	-	-
6. CHLORIDE ZAMBIA LTD	MULTIN	39.1	32.6	13.4	18.2	39.8	37
7. COLGATE PALMOLIVE	MULTIN	2.2	2.2	1.3	0	6.3	19.7
8. CONSOLIDATED TYRE LTD	PARAST	41	40	0	0	0	0
9. COPPERBELT BOTTLING LTD	PRIVAT	27.6	21.2	15.7	12.6	30.9	39.3
10. DELTA ZAMBIA LIMITED	PRIVAT	48.8	44.4	57.4	48.5	52.4	70.1
11. FREBER LIMITED	PRIVAT	40	40.6	36.3	56.8	60.1	20.8
12. GAMMA PHARMACEUT LTD	PRIVAT	-	-	-	-	-	-
13. INDECO MILLING	PARAST	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	PARAST	5.3	25.9	14.5	14.7	23.9	43.5
15. INTERNATIONAL CHEMI LTD	PRIVAT	36.6	63.6	30.9	51.3	51	36.6
16. JOHNSON & JOHNSON LTD	MULTIN	-	-	51.5	27.3	37.5	25.9
17. MEDWICH CLOTHING LTD	PRIVAT	47	38.5	50.6	52.3	39.2	63.8
18. MERCANTILE PRINTERS LTD	PRIVAT	-	-	-	30	40.7	59.2
19. MONARCH ZAMBIA LIMITED	PARAST	-	-	-	-	-	-
20. MONTEREY PRINTING LTD	PRIVAT	43.3	48	32.2	43.8	45.8	45.4
21. MUKUBA TEXTILES LIMITED	PRIVAT	84	80.1	77.8	75.3	90	67.6
22. MUTENDE MINING EQUT LTD	PRIVAT	-	-	-	-	-	-
23. NATIONAL BREWERIES LTD	PARAST	37.6	56.7	24	19	50.2	26.5
24. NDOLA LIME LIMITED	PARAST	5.1	38.1	3	2.3	24.2	48.3
25. NDOLA WEAVING TEXT LTD	PRIVAT	51.2	36.3	25.5	56.2	40.7	52
26. NICHOLAS LABORATO LTD	MULTIN	-	-	-	-	-	-
27. NORGROUP PLASTICS LTD	PARAST	35.7	25.2	40.7	51	64.3	33.7
28. PERWAY INDUSTRIES LTD	PRIVAT	-	-	-	-	-	-
29. PIGOTT & MASKEW LTD	PRIVAT	47.6	32	35.2	23.7	24.3	38.9
30. PIPER CLOTHING LIMITED	PRIVAT	16.8	20.4	31.2	29.2	15.9	15.5
31. REFINED OIL PRODUCTS LTD	PARAST	10.9	16	19.6	23.7	28.7	36.5
32. SAKIZA SPINNING LTD	PRIVAT	-	-	-	-	-	-
33. SCAW LIMITED	PARAST	-	-	-	-	-	-
34. SPECIALITY FOODS LTD	PRIVAT	-	-	47.6	42.6	23.9	35.5
35. SWARP SPINNING MILLS LTD	PRIVAT	-	-	31.5	33.1	31.6	38.7
36. TESOLIN AND DARI LTD	PRIVAT	50.2	35	40.6	36.7	46	46.6
37. TITANIUM/BUFFALO P LTD	PRIVAT	-	-	-	-	23.9	23.3
38. VITAFOAM ZAMBIA LTD	PRIVAT	3.7	3.3	3.1	6.8	40.5	8.4
39. VITRETEX PAINTS LTD	MULTIN	35.3	44.1	15.9	14.4	15.2	21.8
40. ZAFFICO LIMITED	PARAST	-	-	-	-	-	-
41. ZAMBEZI PAPER MILLS LTD	PRIVAT	57.8	57.4	47.3	69.5	52	80.3
42. ZAMBIA COLD STORAGE LTD	PARAST	0	0	0	0	0	0
43. ZAMBIA SUGAR CO LTD	PARAST	-	-	-	-	-	-

NAME OF COMPANY	TYPE OF FIRM	INVENTORY AS PERCENTAGE TOTAL CURRENT ASSETS					
		1983	1984	1986	1987	1989	1990
1. AFE LIMITED	PARAST	90.4	87.4	86.9	63.2	51.3	50.1
2. BOART ZAMBIA LIMITED	MULTIN	71.4	61.6	37.1	28.6	56.8	56.5
3. BONAR COLWYN LIMITED	MULTIN	-	-	-	-	-	-
4. CENTURY PACKAGING LTD	PRIVAT	-	-	57.7	68.6	49	38.7
5. CHEMMIMEX ZAMBIA LTD	PRIVAT	-	-	-	-	-	-
6. CHLORIDE ZAMBIA LTD	MULTIN	28.6	23	55	55.9	25.3	26.8
7. COLGATE PALMOLIVE	MULTIN	82.3	87.7	89.3	98.3	93.6	80.3
8. CONSOLIDATED TYRE LTD	PARAST	54.4	33.8	97.1	98.5	100	100
9. COPPERBELT BOTTLING LTD	PRIVAT	59.4	76.6	82	87.3	65.2	53.8
10. DELTA ZAMBIA LIMITED	PRIVAT	16.8	40.6	34.8	51	42.8	29.8
11. FREBER LIMITED	PRIVAT	59.9	59.3	63.6	43.1	39.8	79.1
12. GAMMA PHARMACEUT LTD	PRIVAT	-	-	-	-	-	-
13. INDECO MILLING	PARAST	-	-	-	-	-	-
14. INDENI PETROLEUM LTD	PARAST	63.9	69.9	85.4	68.8	76	47.7
15. INTERNATIONAL CHEMI LTD	PRIVAT	62.7	33.8	64.4	48	48.9	63.3
16. JOHNSON & JOHNSON LTD	MULTIN	-	-	34	47.9	46.6	64.8
17. MEDWICH CLOTHING LTD	PRIVAT	48.1	49	49.3	36	51.1	36
18. MERCANTILE PRINTERS LTD	PRIVAT	-	-	-	70	55.4	35.7
19. MONARCH ZAMBIA LIMITED	PARAST	-	-	-	-	-	-
20. MONTEREY PRINTING LTD	PRIVAT	26.1	43	67.7	56.1	54.1	54.5
21. MUKUBA TEXTILES LIMITED	PRIVAT	15.9	19.8	22.1	24.6	9.9	32.3
22. MUTENDE MINING EQUT LTD	PRIVAT	-	-	-	-	-	-
23. NATIONAL BREWERIES LTD	PARAST	48.1	24.3	45.7	70.5	44.8	66.1
24. NDOLA LIME LIMITED	PARAST	94.8	61.8	90	95.2	54.6	48.6
25. NDOLA WEAVING TEXT LTD	PRIVAT	46.7	63.6	73.2	43.7	59.3	46.3
26. NICHOLAS LABORATO LTD	MULTIN	-	-	-	-	-	-
27. NORGROUP PLASTICS LTD	PARAST	64.2	74.7	59.2	48.9	28.8	66.2
28. PERWAY INDUSTRIES LTD	PRIVAT	-	-	-	-	-	-
29. PIGOTT & MASKEW LTD	PRIVAT	21.2	28.7	40.2	28.6	61.2	53.8
30. PIPER CLOTHING LIMITED	PRIVAT	51.6	42.4	43.8	42.6	75.4	78.5
31. REFINED OIL PRODUCTS LTD	PARAST	85.8	83.9	80.3	76.2	71.2	63.4
32. SAKIZA SPINNING LTD	PRIVAT	-	-	-	-	-	-
33. SCAW LIMITED	PARAST	-	-	-	-	-	-
34. SPECIALITY FOODS LTD	PRIVAT	-	-	46.7	52.9	76	60.8
35. SWARP SPINNING MILLS LTD	PRIVAT	-	-	68.4	66.8	68.3	61.2
36. TESOLIN AND DARI LTD	PRIVAT	49.7	64.9	59.3	63.2	53.9	53.3
37. TITANIUM/BUFFALO P LTD	PRIVAT	-	-	-	-	45.4	52.1
38. VITAFOAM ZAMBIA LTD	PRIVAT	39.5	63.7	75.1	93.1	42.5	83.6
39. VITRETEX PAINTS LTD	MULTIN	59.5	50.7	84.1	85.5	84.7	78.1
40. ZAFFICO LIMITED	PARAST	-	-	-	-	-	-
41. ZAMBEZI PAPER MILLS LTD	PRIVAT	42.1	42.5	27.5	25.1	46	18.4
42. ZAMBIA COLD STORAGE LTD	PARAST	82.3	87.8	90	87.6	86.3	90.7
43. ZAMBIA SUGAR CO LTD	PARAST	-	-	-	-	-	-
TOTAL PERCENTAGE, CASH+RECEIV+ INVENT=		100	100	100	100	100	100

NOTE: - = NOT AVAILABLE.

SOURCE: THE 43-COMPANY SURVEY

APPENDIX CASE 7.1 AN EXAMPLE OF HOW PRICE CONTROL, THEN DECONTROL AND DEVALUATION AFFECTED A LOSS-MAKING PARASTATAL IN ZAMBIA.

It might be useful in the light of the abrupt demise of economic liberalisation in May 1987 to cast a glance at the operational profile of a large loss-making food manufacturing parastatal to highlight some of the major problems that have to be resolved under Zambia's renewed system of administered economic management.

The enterprise comprises four cereal mills and enjoys monopoly conditions of sale. In two of the factories the machinery is around 50 years old. For want of spare parts and repairs, milling coefficients are low and operating costs high. Before price decontrol, these costs could not be passed on to consumers. Moreover, while the landed price of wheat rose by over 50%, the ex-factory price of flour had to be kept unchanged by administrative fiat. Losses were high and obliged the company to default on its payments to the cereal purchasing and importing agency in 1982. The following year was taken up with the preparation of a rehabilitation study and then 3 more years were spent on mobilising the necessary foreign finance— just when praise was being heaped on Zambia for its bold reforms by all donors— and ordering equipment. Meanwhile, the by then unencumbered enterprise raised the price of its flour— as agreed with the retailers— from K50.5 per 90kg bag to K68.00, causing offtake to contract proportionately. In 1986, as the excess liquidity and auctioning of foreign exchange accelerated the price spiral, the retail price of flour had to be raised from K147.4 to K224 per bag. The price elasticity of consumer demand took its toll on flour sales, which dropped to less than one-half of their pre-liberalisation level.

Behind these figures is a radical switch in the main constraint on the enterprise: from the supply side because of foreign exchange unavailability— to the demand side as the national currency underwent a massive devaluation and dragged down urban consumer purchasing power. Is another reversal in these constraints in the offing?

SOURCE: Quoted from Karmiloff I (1988), p11.

APPENDIX CASE 7.2 SWAZI BUSINESSES FEEL THE PINCH

Swazi businesses are beginning to feel the pinch as South Africa opens up to continental and world markets and as sanctions against its much bigger neighbour are lifted, writes *Norman Sowerby* from Mbabane. **Swaziland Industrial Development Company** Assistant General Manager Kenneth Mbuli contends, "South Africa's export-incentive scheme is putting many Swazi eporters into difficulty. Under the scheme, South African exporters are subsidised by their government with a substantial proportion of production costs. Competition has increased enormously as a result. It has knocked out any preferential advantage Swazi entrepreneurs had in entering European markets. For example, local firm **Swazi Timber products,** was meeting a big demand from do-it-yourself distributors in Europe, the US, Canada and Australia for its pine shelving systems and wine racks. Since the South African incentive scheme began operating, it is cheaper for European firms to import South African knocked-down furniture of this kind".

According to information published on the South African incentives, benefits can include cash payments on exported goods and tax deductions of up to 200% of export manufacturing expenditure. Exporters can also claim marketing costs such as 50% of return air tickets to new market countries, 50% of transport costs of samples and accommodation costs of up to 300 rands ($109) per day. Simon Pefile, Managing Director of the **Mancom** group of companies, which encompasses **Swaziland Brewers, Swaziland Bottlers** and **Swaziland Beverages,** observes, "For us, Mozambique, with its population of more than 15 million and with its capital, Maputo, just a couple of hours away by road, is a very obvious market. In February 1989, we exported 120,000 hectolitres of lager-type beer to Mozambique. The value was about 25m emalangeni [25m rands, or $9.07m]". However, he continues, "in February 1992, with South Africa's export incentives taking full effect, we sold 44,000 hectolitres, valued at just over E9m. In February 1992, South Africa sold 307,000 hectolitres of beer to Mozambique, valued at about E64.5m. Because of the incentive pay-outs, approximately 20% of the value of their exports, they were able to undercut us by E3 for every case of beer".

An earlier victim of increasing contact with South Africa was **Royal Swazi National Airways,** which once carried substantial numbers of Zambians to the well-stocked shelves of shops in Mbabane and Manzini. These shoppers since January 1992 have been able to fly direct to even-better-stocked Johannesburg from Lusaka, without the formality of visas, causing a loss in passengers for Royal Swazi. Flights between Manzini and Lusaka have been cut from three to two a week, airline staff confirm.

SOURCE: African Business, September 1992, no 169, p12.

APPENDIX CASE 7.3 IMPACT OF THE SOUTH AFRICAN FACTOR: LETTER FROM MR A N PATEL, MD FOR MARANA CHEMICALS LTD AND SUNRISE BUSCUITS LTD IN NDOLA, TO MR P L CANTERBURY— CHAIRMAN OF THE NDOLA DISTRICT CHAMBER OF COMMERCE AND INDUSTRY, DATED 15 NOV 1991—— AND MADE AVAILABLE TO THIS AUTHOR

Dear Peter,

TRADE WITH SOUTH AFRICA

I have given some thought to the points raised by the Honourable Dipak Patel and I would comment as follows:

(1) I consider that broadly speaking, the benefits of a Trade Agreement with South Africa would be to their advantage and not to ours. Even without any official trade agreement, South Africa would be able to avail itself of a Zambian market that is a traditional importer of a wide variety of goods whereas South Africa is self-sufficient in most of its products. The benefits for Zambia would be inherent in our purchases from them in that in most cases lead time is good and prices are frequently cheaper than from Europe but these are advantages we would enjoy with or without a trade agreement.

(2) Tariff protection would only be of benefit to Zambia if we could impose it on them and they could not impose it on us. We are at a big disadvantage in selling most of our products to compete in the South African market because South Africa has: (a) Far more raw materials naturally available; (b) Much better production facilities; (c) Superior packaging; (d) Export subsidies; (e) Transport subsidies; (f) Lower finance costs; (g) Better facilities for discounting bills and, (h) Virtually unlimited access to foreign exchange for imports.
Being realistic, it will take a long time for Zambia to catch up on production facilities, packaging and to have the same availability of foreign exchange but incentives could be given on items (d), (e) and (f) to assist and encourage the export of what we produce in Zambia.

If we take our main export product, Copper Oxychloride fungicide, as an example, the market for this product is much bigger in South Africa than it is in Zambia. So assuming both governments would agree to speeding up registration of the product in the respective countries, in theory we would have a better opportunity to export than would our South African opposition. However, our disadvantages are much greater than theirs in that:

(i) We have less foreign exchange available for imports.
(ii) Our finance rates are much higher.
(iii) They have export and transport incentives.
(iv) Most important, they have access to large amounts of scrap copper and we do not.

For us to supply the volumes required, we would have to buy copper cathodes from ZCCM and even though we have tried hard to change the system to create some advantage to support our local manufacturing industry, we have to buy from ZCCM at London Metal Exchange prices which are three times higher than scrap prices. As copper, a non-imported product, represents 50% by volume of our input of raw materials, you will appreciate how hard it is for us to be competitive.

(3) I think the dangers to local businessmen of trade with South Africa are that with the disadvantages for our manufacturing industry as outlined above, unless we are given workable incentives for our exporters or meaningful advantages for our non-exporting manufacturers, we risk being flooded with imports of products against which our manufacturing industry is powerless to compete. We could become a nation of traders and unemployment would rise even further.

I hope these comments are of some help to Mr Frost (Chairman of ZACCI) and to the Honourable Deputy Minister for Commerce, Trade and Industry.

Appendix 8.1 Tape-recorded Interview with Burnet Walker & Company of Glasgow, UK, on doing business with Swarp Spinning Mills of Ndola.

3RD SEPTEMBER 1992 PERSONAL INTERVIEW WITH MR R BURNET, DIRECTOR OF BURNET WALKER & COMPANY [GLASGOW] ON DOING BUSINESS WITH THE THIRD WORLD, ZAMBIA IN PARTICULAR, SWARP SPINNING MILLS LIMITED [SSML] SPECIFICALLY— DURING THE ADJUSTMENT PERIOD.

Please answer the following questions as candidly as possible. Results are for research purposes only. In all cases, elaboration will be greatly appreciated.

SECTION A: BACKGROUND QUESTIONS

1. What's the principal business of Burnet Walker & Company?
The principal business of Burnet Walker is yarn, cotton yarn and poly-cotton yarns; and generally speaking span yarns and blended yarns with a little bit of polyester yarns. And I am interested in developing knitted fabrics.

2. How long have you done business with Zambia in general?
I went to Zambia in 1981 after doing business for a few years with Zimbabwe and Kenya. And I went to visit your factories that were there at that time— Mulungushi Textiles and Kafue Textiles. The former had just been built by the Chinese. I was searching for a partner in yarn exports. Mulungushi at that time were running 3 shifts. When I went back a year later their business had gone down very badly. The quality of their yarn wasn't up to export standard. We did buy yarn from them on a trial basis but they never performed, they never shipped from the start. Kafue had no extra yarns to sell at that time because they were using all of it in their own factory.

3. How did you come to start business with SSML?
During that visit I heard there was a Mill being built in Ndola, Swarp Spinning Mills. When I got back to the UK I wrote to Swarp suggesting the possibility of exports through Burnet Walker. We started business with Swarp on the completion of their mill in 1983, and we have been doing business with them ever since.

4. Are there any other Zambian firms you're doing business with?
Through SSML we have been introduced to both Starflex and Mukuba Textiles, both in Ndola, and we are also doing business with them at the present time. And Swarp is well aware of our connections with them; but Swarp is our principal supplier from Zambia.

SECTION B: RAW MATERIALS, PRODUCTION, MARKETING, IMPORTS AND EXPORTS

1. How much business with SSML are we talking about?
We import from them approximately 1000 to 1500 tons of yarn per year, for a value of between £1.8 to £2.5 million.

2. Would you like to increase orders from SSML from the current level?
As their capacity has been expanded over the years we have taken more and more yarn from them over the last 9 years. We would obviously like to increase our orders from the current levels, and they are at the moment considering a further expansion.

3. If your answer to 2 above is yes, give the major reasons:

(a) Why you would like to do so
The reasons being Zambian cotton is good. Swarp Spinning is a new plant, producing high quality yarn; with very good management.

(b) Why you haven't done so already
The reason why we haven't expanded any further is because of lack of production on their part.

4. Is SSML a reliable supplier? Please elaborate.
We find SSML a very reliable supplier, one of our most reliable suppliers— we buy yarns throughout the world.

5. What would you say about the quality of SSML products?
Quality standards of SSML are high, and we have very seldom any complaints at all. Only sometimes on the packing and presentation; and the limitations on this are the lack of proper packaging materials available in Zambia.

6. What other textile products— currently not supplied by SSML— would you be willing to order from them over and above your current dealings?
We would be very interested in buying combed yarns from Zambia, poly-cotton yarns also. But this cannot be achieved until they expand their mill.

SECTION C: FINANCE AND FINANCING

1. How do you normally have your imports from SSML delivered all the way to Glasgow? Please mention all aspects of transportation and financing.

We buy, in world markets, all our yarns delivered to our Liverpool, Glasgow and Leicester Ware-houses on 90-day credit terms. But due to Swarp Spinning's financing, we buy from them on an f.o.b basis and we pay the freight in the UK. But we buy on 30 days draft bill of lading, which is totally inadequate for financing. So its' supplied on a draft basis, not on a letter of credit.

SECTION D: GENERAL MANAGEMENT

1. What specific aspects of the Zambian business environment have been a plus for doing business there? Please elaborate.

Zambian people are of high standard, and business with them has been relatively simple. There are certain aspects of Zambian life that seem wrong. That where Zambia grows quite a substantial amount of cotton, they seem over the years to have been exporting raw cotton to other countries, instead of processing this cotton and getting the added value benefits.

2. What specific aspects of the Zambian business environment have been a minus for doing business there?

For 9 years we have been buying on very poor credit terms from Zambia. You must achieve this aim in order to continue long term business in Zambia. I would consider a minimum of 60 days as favourable credit terms.

3. Zambia changed governments in October 1991. So far as you're concerned, has this change benefited your business there and, if so, in what ways?

I haven't been to Zambia unfortunately since the change in government, I am proposing to go within the next 4 to 6 weeks, because this is the time of year I normally go. Therefore I haven't yet been able to see any benefits. But obviously the benefits of free enterprise will in time benefit Zambia. It may take some time before these benefits come through.

4. Do you see business with SSML going well into the next century?

I should consider SSML has a great future for both employment within the Ndola region, because textiles [especially textile spinning] is a very big absorber of labour. With proper government encouragement there's a very good long term future. With great amounts of raw materials available in Zambia, labour available in Zambia, and a large world to export into, making garments is the next step for export markets. But it has to be an export quality. Cotton in European markets is very strong, very strong indeed, whereas in Zambia and Africa nylon and polyester seem to have greater demand because obviously I think the dry coat is much more important. But cotton as a fabric is so much more important and comfortable to wear and is very strong in both fashion and general usage in the UK.

5. How do you see the drought in Southern Africa— which has affected cotton output— affecting your own business?

Should be able to buy cotton on world markets. There's a lot of cotton available in Russia and other places. So even companies like SSML should be able to buy it to meet any short-fall and continue to earn foreign exchange.

SECTION D: OTHER REMARKS

Do you have any other remarks you would like to make germane to successful business dealings with Zambia in general, Swarp Spinning Mills Ltd in particular?

Obviously encouragement to business in Zambia is most important. In other countries throughout the world subsidising manufacturing to earn foreign exchange is very important. Because without foreign currency you are unable to buy most of the things you want in this life. And to earn foreign currency you have to be a major exporter, in all areas of business not just textiles. So government encouragement is very important: in terms of export subsidies or freight subsidies or whatever you want to call it, to make sure that exporters are competitive on world markets.

THANK YOU EVER SO MUCH, MR BURNET, FOR BOTH YOUR OPINIONS AND TIME.

GERRY NKOMBO MUUKA
COMMONWEALTH SCHOLAR
EDINBURGH UNIVERSITY MANAGEMENT SCHOOL

APPENDIX 8.2 COLGATE PALMOLIVE (Z) LTD: BREAK-DOWN OF PRODUCTION (METRIC TONNES) BY PRODUCT LINE.

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	19928
ORAL CARE	252	262	338	426	370	235	204	238	317	393	403	575
BODY CARE	922	1290	927	1056	1158	1102	1114	1612	2063	2156	2145	2620
FABRICARE	3280	3408	2561	2256	2689	2605	2454	3582	4036	4980	6368	5940
HOUSEHOLD SURFACE CARE	810	643	606	841	763	540	513	811	765	799	931	1000
TOTAL	**5264**	**5603**	**4432**	**4579**	**4980**	**4482**	**4285**	**6243**	**7181**	**8328**	**9847**	**10135**

APPENDIX 8.3 COLGATE PALMOLIVE (Z) LTD: BREAK-DOWN OF SALES (K'000) BY PRODUCT LINE.

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	19928
ORAL CARE	1805	2168	3571	5454	7743	9371	14858	19043	38362	103882	242236	542651
BODY CARE	4295	5170	5075	6056	10995	21464	31112	42958	110917	221899	430001	638058
FABRICARE	4797	5672	6018	6831	12472	23977	40461	54626	84868	195323	590512	938751
HSS CARE	1161	795	1109	1674	2396	3251	5382	10393	12877	26485	68584	106385
OTHERS	0	0	0	0	0	0	0	0	0	0	1901	0
TOTAL SALES	**12058**	**13805**	**15773**	**20015**	**33606**	**58063**	**91813**	**127020**	**247024**	**547589**	**1333234**	**2225845**

APPENDIX 8.4 COLGATE PALMOLIVE (Z) LTD: BREAK-DOWN OF THE COST OF GOODS SOLD (K'000).

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	19928
VARIABLE FACTORY COST	7290	8572	8027	10995	16279	32832	51880	67112	108431	276713	704424	1229393
" FACTORY VARIANCES	378	483	-19	196	-164	2438	-3588	-7589	2065	-6050	-10319	0
PURCH FIN GOODS	0	0	0	0	0	0	650	0	0	0	0	0
PROV FOR BAD DEBTS	3	0	98	30	14	298	159	189	272	1773	5073	8903
FREIGHT	143	217	154	238	402	785	909	1169	2887	16020	33907	66578
SALESMEN COMMISSIONS	166	153	155	200	286	720	748	934	1657	6736	16133	24484
REVAL OF INVENTORIES	0	-58	-125	-983	-905	-8991	-6390	-1883	-23975	-79075	-131411	-178068
TOTAL VARIABLE COSTS	**7980**	**9367**	**8290**	**10384**	**15912**	**28082**	**44368**	**59932**	**91337**	**218117**	**617807**	**1151290**
NON-VAR FACT O/HEADS	497	542	697	969	1260	2271	3508	5352	8717	24785	61043	112680
OTHER	135	332	279	336	197	116	806	1135	8913	10611	15474	12869
TOTAL NON-VAR COSTS	**632**	**874**	**976**	**1305**	**1457**	**2387**	**4314**	**6487**	**17630**	**35396**	**76517**	**125549**
SELLING EXPENSES	123	155	135	160	257	323	1687	1212	1753	3068	6623	9559
PRODUCT MANAGEMENT	140	143	129	160	254	514	0	1004	1793	4250	10736	18615
MARKET RESEARCH	20	53	53	58	143	0	0	0	0	0	0	0
TOTAL MARKETING	283	351	317	378	654	837	1687	2216	3546	7318	17359	28174
ADMINISTRATION	741	967	1182	1370	1858	3458	5155	4832	15771	22092	49821	84412
WAREHOUSING	40	66	26	35	48	68	92	133	232	582	1702	3860
MEDIA	422	427	450	610	657	1476	1622	5252	4230	9397	24333	56835
PROMOTION	207	140	157	511	847	1427	2036	4439	3566	9771	17532	67960
OTHER	0	0	60	40	146	72	246	250	914	832	3073	0
TOTAL ADVERTISING	629	567	667	1161	1650	2775	3904	9941	8710	20000	44938	124795
TOTAL COGs	**10305**	**12192**	**11458**	**14633**	**21579**	**37807**	**59520**	**83541**	**137226**	**303505**	**808144**	**1518080**

KEY: B = BUDGETED, HSS = HOUSE-HOLD

SOURCE: FIELD-WORK DATA

Appendix 8.5 Colgate Palmolive (Z) Ltd: Selected Balance Sheet performance indicators, 1981-1992B (K'000)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992B
Cash	465	443	1432	1043	1606	2361	809	-7782	186	-4500	-30560	-15717
Marketable Securities	150	1078	2775	3975	1459	639	3813	1220	8418	27616	21100	69298
Accounts Receivables (Net)	139	258	208	225	398	326	-120	4208	9978	59246	155345	78706
Inventories (Net)	2341	1214	4543	4730	11353	21190	42367	70182	134709	214078	490504	647432
Prepaids	441	112	269	331	9444	527	1620	2372	4020	4496	11577	8630
Total Current Assets	4036	3105	9227	10304	24260	25043	48489	70800	157311	300936	647966	788339
Inter-company Accounts	-1088	-606	-1575	-2051	-7359	-15369	-12415	-1029	-1816	-10010	-14978	-893
Other Assets	0	673	1048	1579	6505	13833	11118	10654	6000	6000	3000	3000
Net Fixed Assets	1648	2012	2347	2638	3591	12231	20873	23302	30441	83304	194126	278130
Total Assets	4596	5184	11047	12470	26997	35738	68065	103727	191936	380230	830114	1068576
Borrowing— Long-term	0	0	0	0	0	0	0	10555	10255	10555	10255	10255
Accounts Payable	670	520	2447	1674	6709	3116	7254	2767	14758	4169	31830	84555
Other Current Liabilities:												
Reserve for Income taxes	442	512	1411	1646	4971	7139	10178	14302	21019	65484	203979	102809
Dividend and Royalty tax	167	408	466	575	115	47	1581	2637	7235	16433	15487	21649
Other Accruals	341	139	824	701	173	504	2412	2081	15780	25713	55014	53600
Deferred Liabilities	240	481	445	854	2225	3369	5779	9458	15227	28018	64556	118729
Total Liabilities	1860	2060	5593	5450	14193	14375	27204	41800	84274	150372	381121	391597
Capital Stock	1902	1902	1902	3926	5067	7943	13530	13530	59486	108146	210150	354468
Surplus (Beginning)	555	678	786	713	1137	5324	13088	24160	47679	45749	118226	180941
Capitalisation	0	0	0	0	0	-2876	-5587	0	-45955	-31046	-118226	144318
P & L Current Year	354	393	2104	1850	4775	11400	17850	25549	46055	112446	229050	293691
Dividends Declared (Net)	-231	-285	-154	-285	-589	-760	-11191	-2030	-2030	-8923	0	-36623
Surplus (Bnding)	678	789	2986	2278	5324	13083	24160	47679	45749	118226	229050	298691
Total Equity	2580	2688	4638	6204	10391	21031	37690	61209	105234	226372	439200	648159
Unpaid Dividends	0	0	0	0	374	0	1191	0	0	0	0	0
Unpaid Royalties	156	436	816	816	1539	332	1980	718	2428	3486	9793	28820
Total Liabilities and Equity	4596	5184	11047	12470	26997	35738	68065	103727	191936	380230	830114	1068576

Appendix 9.1 Non-traditional exports by sub-sector: cumulative totals ($'000) and growth rates, 1987-91.

Sub-sector	1987	1988	1989	1990	1991	% of Grand Total
Animal Products	2470.50	5462.42	9665.67	11957.15	13141.67	3.1
Building Materials	3175.13	6300.43	9584.19	13181.49	16880.56	4.0
% growth in "		**98.4**	**52.1**	**37.5**	**28.1**	
Chemical Products	4911.00	8913.71	12273.13	15362.66	17913.79	4.3
% growth in "		**81.5**	**37.7**	**25.2**	**16.6**	
Engineering Products	17288.78	40025.84	62601.95	82223.64	110015.62	26.1
% growth in "		**131.5**	**56.4**	**31.3**	**33.8**	
Floricultural Products	330.00	692.56	1442.56	2492.56	4394.56	1.0
Garments	2171.85	5372.46	7795.67	10309.47	12875.67	3.1
handicrafts/Curios	11.00	29.00	56.00	243.00	338.00	0.0
Horticultural Products	1727.00	4840.08	7553.42	12097.06	17903.77	4.2
% growth in "		**180.3**	**56.1**	**60.2**	**48.0**	
Leather	220.00	646.00	1490.27	2529.36	3204.46	0.8
Minerals	1792.52	4802.08	7573.48	9286.33	11110.31	2.6
Mining Equipment	466.48	878.4	1263.4	1630.87	1705.87	0.4
Other Manufactures	223.50	500.00	831.90	1917.90	2825.30	0.7
Petroleum Oils	9282.00	16703.00	24224.00	35368.00	39110.00	9.3
% growth in "		**80.0**	**45.0**	**46.0**	**10.6**	
Primary Agric Commodities	5150.15	17943.25	36489.07	51031.47	73792.47	17.5
% growth in "		**248.4**	**103.3**	**40.0**	**44.6**	
Processed Foods	5350.33	8263.23	9894.30	16090.79	20848.29	4.9
% growth in "		**54.4**	**19.7**	**62.6**	**29.6**	
Semi-Precious Stones	7863.95	13095.94	19040.94	26678.52	36867.28	8.7
% growth in "		**66.5**	**45.4**	**40.1**	**38.2**	
Textiles	5837.50	10805.50	18649.11	27234.94	36614.94	8.7
% growth in "		**85.1**	**72.6**	**46.0**	**34.4**	
Wood Products	301.33	567.46	784.46	1575.46	2095.84	0.5
Grand Total					**421438.40**	

APPENDIX 9.2 : ZAMBIA'S BALANCE OF PAYMENTS FOR 1991-1993 ($' MILLION)

	1991	1992	1993	AVERAGE FOR 1991-93
EXPORTS	1082	1050	1000	1044
COPPER EXPORTS	895	750	710	
THEREFORE NTEs	187	300	290	
IMPORTS	950	1080	1070	1033**
TRADE BALANCE	132	-30	-70	
NET INVISIBLES	-548	-535	-490	
TRANSFERS	480	230	220	
CURRENT ACCOUNT	64	-335	-340	
NET CAPITAL	-259	-275	-340	
OVERALL BALANCE	-230	-610	-680	

** This figure partially demonstrates Zambia's huge import dependence.

SOURCE: IMF (as quoted in the Financial Times, 17 December 1992), other calculations made by this author.

Lloyd's of London Tercentenary Foundation
Registered [illegible]

APPENDIX 11.1

26 May 1993
Our Ref : 92/LTF/3

Mr Nkombo Muuka
The University of Edinburgh
Department of Business studies
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50 George Square
EH8 9JY

LLOYD'S
LLOYD'S OF LONDON

Telephone 071-623 7100 Facsimile 071-626 2389 Telex 8950741 CLLOYD

One Lime Street, London EC3M 7HA

Dear Mr Muuka

LLOYD'S OF LONDON TERCENTENARY FOUNDATION

The Trustees of Lloyd's of London Tercentenary Foundation have considered your application for a Two Year Fellowship, and I am very pleased to advise you that you have been short listed for an interview with the Trustees at Lloyd's on Wednesday 30 June 1993 at 10.30am.

The Trustees would be grateful if you would arrive punctully 15 minutes before this time.

Your interview will last approximately 30 minutes. You will be asked to make a "brief" presentation of your proposed research, (the presentation should be in layman's terms, and no longer than 5-10 minutes), and then answer questions from the Trustees. A slide and overhead projector will be available for your use. I should warn you that at least ten of the Trustees may be present.

The interview will be held in the Adam Room, which is located on 11th Floor of the Lloyd's new Building, at 1 Lime Street. Please go to the main entrance of Lloyd's (Tower 1) which is on the corner of Lime Street and Leadenhall Street where you can take the lifts to the 11th Floor. You must first however, pick up your building pass from the Concourse Reception a little further down the building and go back to the main entrance Tower I. On arrival at the 11th Floor, turn right, where a liveried waiter will direct you to the Adam Room.

The nearest underground stations are Bank and Monument; I enclose a local map which may be of some use. The Foundation will reimburse all appropriate 2nd class travel expenses. I enclose an expenses claim form which you may hand in on the day; a cheque will then be sent to you as soon as possible.

Should you have any queries in the meanwhile please do not hesitate to contact me; my direct telephone number is 071-327-5925 or fax 071-327-5288.

Yours sincerely

Linda Harper

Mrs Linda Harper
Assistant Secretary
Lloyd's of London Tercentenary Foundation

1688
1988

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"There's the old story of the dying Professor with the sad, concerned students round his bed. One of them leaned over and asked the Prof if he had any last message for posterity. After a moment's glassy-eyed thought, the sage said **'verify your references'**, then joined his academic fathers".
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