

CHAPTER SIX

INDUSTRY AND POVERTY REDUCTION

Industry in this paper is restricted to manufacturing activities. The manufacturing sector if well developed is capable of contributing significantly to GDP, export earnings and employment. International experience clearly shows that industrial expansion is necessary to absorb labour especially that coming out of agriculture as the latter gains higher productivity needed for international competitiveness.

Situational Analysis

Zambia's current industrial policy is enshrined in a free enterprise system in which the role of the government is primarily limited to creating the necessary enabling environment. In furtherance of this position, the government undertook privatisation and commercialisation of state enterprises for most of the 1990s.

In an effort to address constraints to economic growth, the Government in 1994 issued an Industrial, Commercial and Trade Policy. That document, however, lacks programs targeted at attacking endemic poverty and does not give any indications as to how to involve the poor, the disadvantaged and socially excluded and other stakeholders in anti-poverty programs. It also lacks strategies for encouraging new investments, establishing competitiveness in industry and economic diversification. Efforts to establish strategic export niches have been inadequate.

The manufacturing sector has during the past decade been exposed to liberal macroeconomic policy including abolition consumer subsidies, decontrolling imports, freeing of the exchange rate and so on. Many firms were unable to withstand the competition. This has contributed rising poverty, especially in urban areas.

The lack of competitiveness in manufacturing is due to a number of constraints. They include narrow export base, unfair competition arising from smuggling and export subsidies in some trading partner economies, lack of effective long-term capital, high cost of utilities like fuel and electricity and inadequate infrastructure. Others are compressed domestic demand and limited access to sub-regional, regional and international markets.

Importantly also, the decline of the sector is related to the decline of the mining industry. A prosperous mining industry provided jobs to manufacturers producing mining components and to industries producing goods consumed by the mining workers. Such opportunities decrease with a smaller mining industry. In absolute terms, out of 55,700 jobs in the sector in 1995, 7,900 had by 2000 been lost due to firm closures and reduced capacity utilisation. The sector's contribution to formal sector employment, has however, been recovering.

Export based manufacturing has performed better. In addition, the sub sectors of food, beverages and tobacco, accounting for over 60 percent of total output in manufacturing, have also done well. Other key sub-sectors are textile and leather products, wood and wood products and chemicals, rubber and plastics. On average, these sub-sectors account for over 90 percent of output in the manufacturing sector.

The generalised slow growth has also diminished business opportunities for urban and rural MSMEs and the informal sector to generate income and create employment. The potential for linkages between formal and informal sectors of the economy, through either direct or indirect demand-supply relationships, have equally been affected negatively.

Industrial Development Programmes for Poverty Reduction

Zambia's industrial vision over the next twenty-five years is to:

“Attain a dynamic, competitive and environmentally sustainable industrial sector in both urban and rural areas as a means to reducing poverty through sustained economic growth and employment creation.” The specific objectives are as follows:

1. Promote investments in both urban and rural areas that first and foremost utilise local raw materials.
2. Encourage output and employment expansion in the sector by promoting the growth in manufactured exports especially in areas where Zambia has comparative advantage.
3. Promote growth in small and medium scale enterprises.
4. Promote an enabling environment and even the playing field with respect to competing imports, efficient utilities in energy transport and telecommunications, skills training, science and technology development, legal and regulatory framework that is conducive to the growth of manufacturing.

It is expected that by the end of the visionary period Zambia will have developed a sustainable export led manufacturing sector leading to an increase in job opportunities, sustainable export earnings, and an increase in the share of manufacturing in GDP to 40 percent from the current 11 percent as well as increase its share of formal sector employment to 35 percent from its current 10 percent. Its share of exports will be 30 percent compared to 14 percent currently.

In devising an industrial strategy for economic growth and poverty reduction, Zambia will first and foremost support the “winners” or those industries that have the best chance of success. Ever since local manufacturing faced foreign competition, firms using locally available raw materials have fared better than those that were over-dependent on imported inputs. It is the former, especially those using farm output that will receive priority. Within this, export processing for items like cotton, coffee, cashew nuts, groundnuts, paprika, sugar, fruits, etc. will receive special attention in addition to manufacturing linked to mining.

The intention is to create a link between primary extraction and industrialisation through adding value to primary goods and exporting. Exports of both primary and processed primary goods will contribute towards raising purchasing power in Zambia for manufactured goods primarily intended for the domestic market. However, this also requires that proven cases of unfair advantage for imported competing goods be dealt with effectively.

The following are the programmes in manufacturing for poverty reduction:

Investment Promotion

Measures to increase domestic and foreign investments will be as the follows:

- ❑ Production of geographically segregated resource endowment maps so that potential investors can easily tell what resources are available.
- ❑ In the new farming blocks to be established (see section on agriculture) with large estates, commercial farms and out-grower schemes, investors will be encouraged to add value to the agricultural goods being produced in the vicinity. Such investors could also be the same as those producing agricultural goods. Potential commodities include sugar, coffee, paprika, fruits, cashew nuts, cotton, rice and even maize for the Congolese market
- ❑ Working with the mining companies, identify their needs for high volume manufactured goods and encourage investors to satisfy that need from Zambian based firms, new or old.
- ❑ Welcome foreign investors with demonstrable capacities for investments in schemes such as build, operate, transfer (BOT) and build, own, operate, transfer (BOOT) and establish linkages of how know-how and business opportunities can be accessed by local investors.
- ❑ Be more effective in facilitating investors by defining performance standards, especially in respect of big investments, to be observed by all relevant institutions like the Investment Centre and others.
- ❑ Embark on a robust and determined Public Investment Programme (PIP) with a view to maintaining existing and building new social and economic infrastructure.
- ❑ Establish more industrial estates for MSMEs.
- ❑ Amend laws relating to land allocation especially at local Government level;
- ❑ Encourage every local authority to designate land for the development of industrial parks and “industrial shells” for leasing to local and foreign investors;
- ❑ Encourage and reward environmentally-sound and friendly investments;
- ❑ Mainstream environmental and natural resource management in Zambia’s industrial development programmes and activities; and
- ❑ Enforce obligatory environmental impact assessments for all major investment programmes and projects in all sectors of the economy.

Export Promotion

Exports growth is key for economic revival and poverty reduction as was stated. The Export Board of Zambia (EBZ) will be assisted to diversify the non-traditional exports and to take advantage of e-commerce. The following measures will be taken:

1. Trade attaches and experts will be trained to identify market opportunities and how to extract most advantage of trade agreements and protocols to which we are party

2. Efforts will be made to identify market opportunities in the EU, the USA, COMESA, SADC, etc which offer Zambia preferential treatment for her exports.
3. Working backwards, the production of goods with known market opportunities will be encouraged, especially those that add value to primary goods.
4. Conclude agreement on implementing a program for reducing maximum import tariffs and reduce taxes on imported inputs for exporters
5. Encouraging establishment of modern testing and calibration facilities at Zambia Bureau of Standards within three years.
6. Encourage establishment of private sector testing and calibration facilities;
7. Aggressively marketing of Zambia's exports
8. Create enabling environment for quality assurance for goods meant for both domestic and export markets.
9. Fully liberalise the air transport sector. Currently, exporters experience difficulties with chartering cargo aircraft; and
10. Explore the feasibility of establishing Export Processing Zones (EPZs.)

Capital Market Development

A sustainable manufacturing sector will need a viable medium and long-term capital market. The programs dealing with this were outlined in the chapter dealing with macro economic issues.

Skills Development:

Zambia needs all the skills it can muster to realise its long-term industrial vision. In this regard, the Government will:

- ❑ Work out an incentive package to attract back into the country willing skilled manpower;
- ❑ Re-introduce the apprenticeship scheme and advanced crafts training.
- ❑ Re-introduce and formally recognise Master Craftsman schemes with a view to tapping accumulated skills of men and women. This is in recognition of Zambia's large pool of craftsmen who have acquired skills through formal and/or hands-on training but remain under-utilised due to lack of awareness of what they can contribute.
- ❑ Give special tax and non-tax incentives to entities that invest in short and long-term human resources training and skills development schemes. The private sector will particularly be encouraged to set up management and technical training institutions;
- ❑ Encourage and promote pre-employment training schemes and in-service training; and
- ❑ Work out a system of identifying industry specific skills requirements in collaboration with the business community.

Science, Technology, Research and Development

The Government will place a premium on public and private sector initiatives that aim to establish a viable local stock of scientific and technological know-how. Specifically, the Government will:

- ❑ Rehabilitate scientific and technological development institutions such as Engineering Schools in the two Universities, the National Institute for Scientific and Industrial Research (NISIR) and the Technology Development and Advisory Unit (TDAU);
- ❑ Offer special tax and non-tax incentives to private sector firms which fund the development of science and technology through, for instance, sponsorship of Chairs in Research and Development institutions; and
- ❑ Strengthen the scientific and technological coordinative role of the Science and Technology Council (STC), the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) and other institutions with similar mandates through well-targeted institutional capacity building programs and allocation of adequate public resources.

Micro, Small and Medium Enterprise (MSME) Development

Strategies for developing an MSME will include encouraging the establishment of private sector micro credit schemes, central buying agency for MSMEs, a revolving fund to be administered by an appropriately identified institution. Further, training of MSMEs in business management and technical skills will be supported.

The MSME including the informal sector, need to be further supported by appropriate institutional and legal instruments. In this respect, the Government will:

- ❑ Facilitate training and re-training in entrepreneurship skills for those falling out of formal employment;
- ❑ Support the construction of industrial estates by the private sector for leasing to MSMEs; each council will mark out land and advertise it to developers.
- ❑ Assist in developing mutually re-enforcing linkages between MSMEs and large enterprises. Each year a survey will be undertaken to determine the presence of such opportunities. SEDB will be the depository of the results and it will be available to all.
- ❑ Review and harmonise existing legal and regulatory framework with a view to removing impediments to operations of MSMEs;
- ❑ Review the Tender Board Act and tender procedures to build into them measures that will encourage the public sector to source their requirements from MSMEs;
- ❑ In particular, government will ensure MSMEs will be considered in the procurement of items like schools desks and furniture. Government will make its expectations of standards known to the MSMEs and micro credit schemes will help MSMEs
- ❑ Similarly, small building contractors will be considered for construction and rehabilitation of rural schools and health centres which as much as possible must use locally available materials like bricks and thatching grass. It is easier for communities to maintain and rehabilitate such facilities.
- ❑ Encourage local authorities to review their infrastructure services and licensing requirements and regulations so as to proactively support actors in the MSME sector;

- ❑ Provide further legislation and incentives in support of MSMEs and the informal sector;
- ❑ Promote strategies and measures that will help to promote informal sector operators into the formal sector;
- ❑ Facilitate the repeal and amendment of any remaining pieces of discriminatory legislation that deny women and the youth access to and control over productive resources such as land, credit, information and technology;
- ❑ Encourage the participation of women and youth in private and public credit schemes;
- ❑ Support public and private programmes that aim at maximising the involvement of the youth in business; and
- ❑ Institute measures to increase access by MSMEs and the informal sector to business and trade information.
- ❑ To ensure access to credit by MSMEs, the Government will design and implement measures that will facilitate expeditious acquisition of titles to land.

Rural Industrialisation

During the second republic, rural industries were set up to help even the imbalances arising from urban bias. Most of them failed following withdrawal of state subsidies and the onset of imported goods. The reasons for the failure are varied but they include misconceived economic viability, wrong citing resulting in expensive logistics and burdensome political influence in the parastatal management.

Zambia will reverse this trend by adopting strategies that will encourage the spread of manufacturing to rural areas. To achieve this, Zambia will ensure that it:

- ❑ Promotes private sector investments that emphasise rural-based agro-processing within the existing and the new farm blocks that will be established.
- ❑ Rehabilitates existing farm-to-market roads and in exceptional cases build new ones to facilitate access to markets;
- ❑ Maintains existing input and output storage facilities and builds new ones in locations where they currently do not exist;
- ❑ Facilitates the provision of appropriate energy sources for small and medium entrepreneurs;
- ❑ Encourages the use of renewable sources of energy such as solar power; and
- ❑ Rehabilitates and increases the rural road network.

Legal And Regulatory Framework

It is recognised that, for suggested manufacturing strategies to work, there will be need for compliance to existing laws and regulations. In this regard, the Government will ensure that there is compliance by businesses to laws and regulations such as those relating to:

- ❑ Company tax compliance and returns;
- ❑ Stock Exchange listing rules;

- ❑ Accepted accounting and auditing standards;
- ❑ Labour standards; and
- ❑ Environmental sustainability.

With regard to corruption, Zambia is committed to being an active member of the global coalition against corruption and corrupt practices.

Industrial Property Rights and Competition.

The existence of an effective legal and regulatory framework for the protection of industrial and commercial property rights and ensuring free and fair competition is a *sine qua non* for inventive and innovative business activities. It is equally important for encouraging the transfer of science and technology. In this regard, the Government will harmonise existing industrial property rights with those of other countries with a view to, *inter alia*, allowing investors the opportunity to benefit from the international industrial and commercial property rights regime. The exercise is equally important for ensuring that local and international investors are free from the risk of unfair expropriation.

Lastly crosscutting issues of gender, the youth, HIV/AIDS, environment and energy should be mainstreamed in all national development programmes.

Prioritising of Industrial Programs

In terms of the prioritisation of the above programmes, the recommended order of priority is as follows: Investment and export promotion, MSME promotion, rural industrialization, capital market development, skills development, and science and technology. All these programmes must filter into the Legal and Regulatory framework. Further, the implementation of these ideas requires a multi-sectoral approach incorporating extractive sectors (agriculture and mining) as well as those responsible for providing infrastructure. Under the circumstances a package approach will be adopted in which an area (whose physical location can span districts or provinces) is identified, an investor for agriculture is found and an investor for processing is also found. Government then puts in place infrastructure.