

Chapter 6

Industry

6.1 Introduction

In the context of this chapter, manufacturing and industry are considered synonymous. This is done with full recognition of the broadness of the economic conception of the term “industry” that includes agriculture, mining and other activities as industrial. The manufacturing sector has been and continues to be pivotal to Zambia’s economic development. The sector has averaged 10 percent of GDP and employs about 11 percent of formal sector labour. The manufacturing sector is a key linkage with the primary sectors like agriculture as its processes are seen as adding value to locally produced primary products.

The manufacturing sector has various linkages for growth and poverty reduction in Zambia. The increase in manufactured outputs creates increased demand for raw agricultural materials that, in turn, increases output and employment in agriculture. Given the rural orientation of Zambia’s agriculture, increased agricultural output can lead to increased incomes for the rural poor and, thus, reduce poverty levels. Similar linkages exist in various degrees with other primary sectors such as mining. Therefore, the key linkage between manufacturing and poverty reduction is seen to operate through the main channels of expansion in output, employment creation, growth of household incomes, increased tax base, and, where output is also for export, increased foreign exchange earnings.

6.2 Situation Analysis

The manufacturing sector in Zambia grew rapidly following independence. This initial rapid growth was in part due to the setting up of new manufacturing plants and greater capacity utilisation and an unrestricted inflow of raw material supplies. Political considerations such as the unilateral declaration of independence in Rhodesia brought about the urgency to develop the local manufacturing industry under an import substitution industrialisation strategy. This was made possible by the high copper prices and high foreign exchange earnings that enabled the importation of raw materials. Most of the growth was in the food, beverages and tobacco, textiles and leather products and wood and wood products sub-sectors. One feature of this industrial expansion was the high dependence on copper export earnings to provide money for importing raw materials.

The decline in the mining industry, combined with the liberalisation of the economy leading to a freer entry of imports, exposed the inherent weaknesses in the Zambian manufacturing sector. Many firms were unable to withstand the competition from imports that threatened their domestic markets and were unable to export mostly because of high input costs and low output quality. Firm closures and other downsizing operations have contributed to rising poverty as many household heads have lost their jobs especially in urban areas. 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.

The lack of competitiveness and slackened productivity in manufacturing is due to a number of constraints. These include a narrow export base, unfair competition arising from smuggling and export subsidies in some trading partner economies. Other constraints are lack of effective long-term capital, high cost of utilities like fuel and electricity, low levels of

industrial skills of artisans, and inadequate infrastructure including serviced industrial land. Importantly also, depressed domestic demand and limited access to sub-regional, regional, and international markets have contributed to the decline in manufacturing. In particular, a prosperous mining industry provided jobs to manufacturers producing mining components and to industries producing goods consumed by the mining workers. Demand for such products has decreased with a smaller mining industry.

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 slow growth has also diminished business opportunities for urban and rural micro, small, and medium size enterprises 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.

6.3 Industrial Development Programmes for Poverty Reduction

6.3.1 Basic Principles and Goals

The current policy thrust in the manufacturing sector is outlined in the 1994 Industrial, Commercial and Trade Policy document. The policy, however, lacks programmes targeted at poverty reduction and does not give concrete indications as to how to involve the poor and the disadvantaged in manufacturing activities aimed at stimulating growth and reducing poverty. The policy also lacks strategies for encouraging new investments, establishing competitiveness in industry, and economic diversification. Efforts to establish strategic export niches also need strengthening. Cross-cutting issues of gender, the youth, HIV/AIDS, environment, and energy will form a critical pillar to attaining industrial development.

In order to focus manufacturing growth towards poverty reduction, it is necessary to ensure that a strategic response is given both in the medium and long term. The following vision will guide Zambia's industrial development over the next twenty-five years.

“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.”

In order to attain this vision, the specific objectives for manufacturing development are as follows:

- Promote investments in both urban and rural areas that primarily utilise local raw materials.
- Encourage output and employment expansion in the sector by promoting growth in manufactured exports especially in areas where Zambia has comparative advantage.
- Promote growth in small- and medium-scale enterprises.
- 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, and 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. This will lead to an increase in job opportunities, sustainable export earnings, and the growth of manufacturing, GDP and employment.

Manufacturing exports are also expected to increase. In devising an industrial strategy for economic growth and poverty reduction, Zambia will primarily support ‘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. Firms using locally available farm output will, therefore, receive priority. Within this, export processing for items like cotton, coffee, cashew nuts, groundnuts, paprika, sugar, and fruits will receive special attention in addition to manufacturing linked to mining. The intention here is to create a link between primary extraction and industrialisation through addition of value to primary goods especially those for export. Exports of both primary and processed primary goods will contribute towards raising purchasing power in Zambia for manufactured goods intended for the domestic market. However, this also requires that proven cases of unfair advantage for imported competing goods be dealt with effectively.

Under the PRSP, the programmes in manufacturing for stimulating economic growth and reducing poverty will include investment promotion; trade and export promotion; capital market development; skills development; science, technology, research and development; micro, small, medium enterprise development; and rural industrialisation. These programmes will be supported by more effective legal and regulatory frameworks that will ensure the protection of industrial and commercial property rights.

6.3.2 Investment Promotion

Private domestic and foreign investment is key to the growth of the manufacturing sector in Zambia. As a support measure to private investment, public investments especially in infrastructure will be made in addition to the maintenance of a stable macroeconomic environment. The key measures to boost investment in manufacturing will be as follows:

- Produce geographically segregated resource endowment maps to assist potential investors to easily identify available resources.
- In the new farming blocks to be established with large estates, commercial farms and outgrower schemes, encourage investors to add value to the agricultural goods being produced in the vicinity. Potential commodities include sugar, coffee, paprika, fruits, cashew nuts, cotton, rice, and maize for both domestic and export markets.
- Promote supplier consolidation in identified bulk supply needs for the mining sector.
- Facilitate both domestic and foreign private investors with capacities for investments in schemes such as build, operate, transfer (BOT) and build, own, operate, transfer (BOOT) and establish linkages of how expertise and business opportunities can be better accessed by local investors.
- Ensure adherence to investment licensing conditions by local and foreign investors.
- Encourage the rehabilitation and expansion of energy, road, transport, and communications infrastructure to support investment in manufacturing.
- Facilitate the establishment of more industrial estates to address the needs of the small- and medium-scale enterprises as well as those in the informal sector.
- Encourage local authorities to designate land for the development of industrial parks and ‘industrial shells’ for leasing to local and foreign investors.
- Mainstream environmental and natural resource management in Zambia’s industrial development programmes and activities.

6.3.3 Trade Policy and Export Promotion

Trade policy and export promotion are key to the expansion of markets for domestically manufactured goods and ensuring international competitiveness in local production. The key issues here include the establishment of a fair domestic and foreign trade regime that facilitates trading to take place on a common set of agreed rules as opposed to discretion, and one that does not stifle domestic production and employment. The government will deal with matters of asymmetric access to markets, dumping, or export subsidies from major trading partners. In order to further encourage exports, bilateral, regional, and multilateral trade regimes will be used to ensure that reciprocity is observed in levelling the playing field. Diversification of exports, especially manufactured tradables, will be encouraged and modern commercial trading methods will be applied where feasible. The following measures will be taken to boost exports of manufactures during the PRSP implementation period:

- Train trade attachés and other staff involved in trade matters in market identification techniques and trade negotiation skills to ensure that Zambia extracts the optimum benefits from trade agreements and protocols.
- Identify export opportunities in markets that give Zambia preferential treatment for its exports such as the European Union under the Cotonou Agreement, and the USA market through the African Growth and Opportunity Act (AGOA). Export opportunities under COMESA, SADC, and similar regional bodies will also be pursued with added vigour.
- Establish Export Processing Zones (EPZs.)
- Establish modern testing and calibration facilities at the Zambia Bureau of Standards. The use of other private sector testing facilities that meet the required legal and technical standards will also be encouraged.
- Encourage establishment of private sector testing and calibration facilities.
- Create an enabling environment for quality assurance for goods meant for both domestic and export markets.

6.3.4 Capital Market Development

A sustainable manufacturing sector needs a viable medium- and long-term capital market. In this regard, measures will be put in place to ease access to development financing, including venture capital for small-scale enterprises.

6.3.5 Skills Development

Skills development is key for the growth of manufacturing especially with respect to productivity growth. High-level technical skills, including those at the artisan level, will be developed. Key interventions in this area during the PRSP implementation period will include the following:

- Develop an incentive package to attract back into the country skilled human resources that have been lost to other countries.
- Re-introduce the apprenticeship scheme and advanced crafts training.
- Re-introduce and formally recognise Master Craftsman schemes with a view to tapping accumulated skills.
- Give special tax and non-tax incentives to manufacturers that invest in short- and long-term human resources training and skills development. 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.
- Work out a system of identifying industry-specific skills requirements in collaboration with the business community.

6.3.6 Science, Technology, Research, and Development

In order for industries to effectively adopt and adapt new technologies to the Zambian situation, public and private sector initiatives that aim to establish a viable local stock of scientific and technological know-how will be encouraged. The following areas will receive attention:

- Rehabilitate scientific and technological development institutions such as schools of engineering and technology at the University of Zambia (UNZA) and the Copperbelt University (CBU), respectively; the Technology Development and Advisory Unit (TDAU) at the University of Zambia; the National Institute for Scientific and Industrial Research (NISIR); and technical colleges.
- Offer special tax and non-tax incentives to private sector firms that fund the development of science and technology through, for instance, sponsorship of Chairs in Research and Development institutions.
- Strengthen the scientific and technological coordinating role of the National Science and Technology Council (NSTC), the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) and other institutions with similar mandates through well-targeted institutional capacity building programmes and allocation of adequate public resources.

6.3.7 Micro, Small, and Medium Enterprise Development

Micro, small, and medium enterprises (MSMEs) form the basic linkage between manufacturing and poverty reduction. Strategies for developing them will include the establishment of private sector micro credit schemes, a central buying agency for MSMEs, and a revolving fund to be administered by an appropriately identified institution. Moreover, training of MSMEs in business management and technical skills will also be supported. The linkage between the MSMEs and larger manufacturing firms will be strengthened, especially for intermediate raw material supplies and labour intensive production processes. Appropriate institutional and legal instruments will further support the MSMEs, including the informal sector. In this respect, the following are the measures to support MSME-level manufacturing under the PRSP:

- 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 municipality will mark out land and advertise it to developers for this purpose.
- Encourage development of intermediate input supply linkages between MSMEs and large-scale enterprises.
- Encourage procurement of goods and services, especially in the health and education sectors, from MSMEs.
- Review and harmonise the existing legal and regulatory framework with a view to removing impediments to MSME operations.
- Encourage the repeal or amendment of any statutes or regulations that hinder women and youth access to, and control of productive resources such as land, credit, trade information, and technology.
- Encourage the participation of women and youth in private and public credit schemes.
- Provide business and trade information to MSMEs and informal sector entrepreneurs.
- Design and implement measures that will facilitate expeditious acquisition of titles to land to ensure improved access to investment finance.

6.3.8 Rural Industrialisation

Past attempts at rural industrialisation focused on setting up rural enterprises to reduce the imbalances arising from urban bias. Most of them failed due to, *inter alia*, misconceived viability, wrong siting resulting in expensive logistics, and burdensome political influence in the management of parastatals. In order to ensure that more manufacturing entities are established in rural areas, matters of economic viability, and correct physical siting to reduce on the set-up costs will be addressed. It is also important to ensure a linkage between agricultural farming blocks, industrial estates, and outgrower schemes in order to establish industries close to the raw material source. Labour intensive approaches will be encouraged for employment creation. To achieve these goals, the following measures will be put in place:

- Promotion of private sector investments that emphasise rural-based manufacturing, especially agro-processing, within the existing and the new farming blocks that will be established under the PRSP.
- Rehabilitation of existing farm-to-market roads and, in exceptional cases, building new ones to facilitate access to markets.
- Facilitating the provision of appropriate energy sources for small and medium-scale entrepreneurs, especially rural-based ones.
- Encouraging the use of alternative and renewable sources of energy such as solar power.

6.3.9 Legal and Regulatory Framework

It is recognised that for the PRSP strategies in the industrial sector to work, there will be need for compliance with existing laws and regulations as well as the enactment of new legislation. In this regard, the government will ensure that there is compliance by businesses to laws and regulations such as those relating to company tax and returns; stock exchange listing rules; accounting and auditing standards; and environmental standards. With regard to corruption, Zambia is committed to being an active member of the global coalition against corruption and corrupt practices, especially in corporate affairs.

Similarly, 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 pre-condition for inventive and innovative business activities. In this regard, the government will harmonise existing industrial property rights with those of other countries with a view to, among other things, allow investors the opportunity to benefit from the international industrial and commercial property rights regime. This will also ensure that local and international investors are free from the risk of unfair expropriation.

6.4 Prioritising of Industrial Programmes

In terms of the prioritisation of the above programmes, the recommended order of priority is as follows:

- Investment promotion
- Trade policy and export promotion
- MSME promotion
- Rural industrialisation
- Capital market development
- Skills, science, and technology development.