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# Unlocking the Potential of Zambian Micro, Small and Medium Enterprises "Learning from the international best practices - the Southeast Asian Experience"

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| 著者 | Chisala Chibwe |
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# Unlocking the Potential of Zambian Micro, Small and Medium Enterprises

*"Learning from the international best practices – the Southeast Asian Experience"*

Chibwe CHISALA*

**Abstract**

This paper examines the SMEs performance in Zambia and attempts to identify some practical lessons that Zambia can learn from Southeast Asian countries (with reference to Malaysia) in order to facilitate industrial development through unlocking the potential of its SMEs sector. Malaysia and Zambia were at the same level of economic development as evidenced by similar per capita incomes but Zambia has remained behind economically and its manufacturing sector has stagnated as if both countries did not have similar initial endowments. It therefore, becomes imperative that Zambia learns from such countries on how they managed to take-off economically with a focus on SME development. Training (education), research & development, market availability and technological advancement through establishment of industrial linkages coupled with cluster formation were some of the outstanding strategies identified that Zambia could use as a "*key*" to unlock its SMEs' potential as it strives to meet the UN MDGs in particular halving its poverty levels by 2015 and also realizing its vision of becoming a middle income earner by 2030.

**Keywords:** development, SMEs, MNCs, Zambia, Malaysia, Southeast Asia

**JEL classification:** L60, O19, R20

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* Intern, IDE – JETRO, MA Graduate Student, GRIPS – Japan, Economist, Ministry of Commerce, Trade and Industry - Zambia (chisalachibwe@yahoo.com)

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**INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO**
**3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI**
**CHIBA 261-8545, JAPAN**

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## １． Introduction

There is no doubt that most African countries depend on their Micro, Small and Medium Enterprise (SMEs) in driving their economies forward. However, most of these SMEs receive lukewarm support from their governments. Nevertheless, a few competitive SMEs are thriving and contributing to economic growth, employment creation and local development in combating poverty.

The private sector has become the centre of concern in today’s globalised world and hence a number of African countries have withdrawn from running the nation’s economic activities and have moved to a more competitive market economy where a sizeable portion of the nation’s economy is being run by the private sector. The private sector has thus been recognized as an engine for economic growth not only in African countries but also in Asian as well as other countries. It is against this background that most countries are now implementing policies that are centered on creating a vibrant business environment for the private sector to flourish.

Talking about the private sector development as one of the solutions to Africa’s deprived economy, it is a well known fact that Africa’s private sector consists mostly of informal SMEs operating along side with large firms hence concerted efforts need to focus on unlocking the potential of these SMEs so that they contribute meaningfully to the nation’s economic growth alas, a common error made by most countries in Africa is that, they tend to target large companies at the expense of SMEs, however, they do not realize that good environment for large scale enterprise may not be favorable for SMEs but if there is a good environment for SMEs then it will also be favorable for large companies. In addition, since SMEs are responsible for a larger percentage of the manufacturing sector in sub-Saharan Africa; Fukunishi (2004), Bigsten and Soderbom (2005) cited from Sonobe et al (2006) found the sub-Saharan Africa manufacturing sector to be stagnant due to different factors hindering its growth.

As a country, Zambia has been struggling on how it can best address the issues that constrain the SMEs from performing at the frontier. For a long time now, as stated earlier, not only in Zambia but even in other African countries, the manufacturing sector which mainly consists of the SMEs has been stagnant. The Ministry of Commerce, Trade and Industry, (MCTI), Zambia manufacturing sector survey (2003) found that the SMEs sector in Zambia has stagnated due to a number of barriers hindering its growth.

The above point becomes worrisome to the Zambian situation, as we expect the SMEs to be the driving force for economic growth and wealth creation. In fact, UNIDO in its Industrial Development Report (2004) has argued that wealth creation strategies have a multiplier effect in economies dominated by SMEs than those dominated by large-scale firms. Therefore, if the status quo is to be maintained, Zambia will remain in the vicious circle of poverty and low per capita income.

On the other hand, investors or large-scale firms, it be foreign or domestic, look at the reliability of the supporting industries before they make their investment decisions as they consider supporting industries (SMEs) to be a very important determinant for the success of their businesses. Perhaps this is why most Southeast Asian countries have concentrated much in developing their home grown enterprises which in turn have attracted more Foreign Direct Investments (FDI). For example Singapore, Korea and Malaysia which receive considerably high levels of FDI, have focused much on developing their SMEs sector, which was one of the strategies used for their industrial development. It is therefore, important that Zambia takes a leaf from these Southeast Asian countries that have succeeded in developing their SMEs during their process of industrialization and see whether it could replicate some of the programmes and policies as it strives to meet some of the Millennium Development Goals in particular halving its poverty levels by 2015.

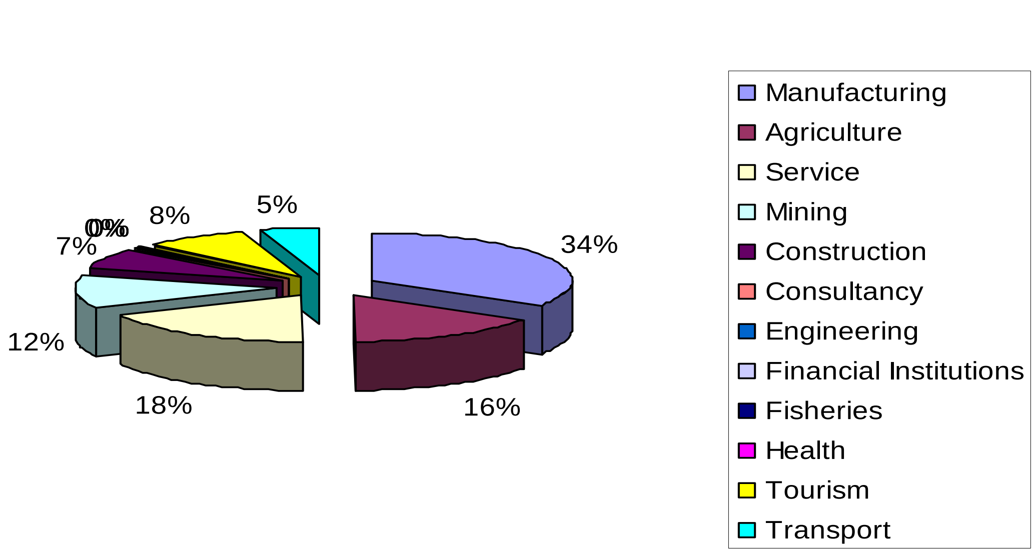
Nevertheless, Zambia has not been left behind in regards to where attracting FDI is concerned, Zambia's FDI inflows has been soaring in response to the good macroeconomic environment the country is currently enjoying. Its FDI inflows has sky rocketed from an annual average of 165 Million USD (UNCTAD, 2005) to about 1.4 Billion USD inflows for the year 2007 according to the Minister in charge of Commerce, Trade and Industry Hon. Felix Mutati, MP (Africa Press International, 2007). With these FDI inflows Zambia has now become the second largest receipt of FDI in sub-Saharan Africa after South Africa. The biggest investments have been in manufacturing, agricultural, mining and tourism. Refer to table 1 and figure 1 below showing the sector by sector total investments and their shares to total investments respectively. Since these investments consists mainly the Multi-National Corporations (MNCs), this is a clear indication that policies favoring MNCs are bearing fruits going by the current levels of FDI inflows to Zambia. Nevertheless, to sustain the MNCs' businesses, there is need to develop the supporting industries, in this case the SMEs. Therefore, besides the pro-MNCs policies, it is imperative that favorable policies and programmes that support the SMEs are put in place. By having a developed supply chain, MNCs will specialize and concentrate on their core businesses and in return the country could benefit from higher productivities.

**Table 1: Total Investment Approvals and Employment in Zambia. 1993 - 2006**

| Sectors | Total Investments (US $) | Total Employment |
|---|---|---|
| Manufacturing | 1,402,656,791 | 73,785 |
| Agriculture | 643,354,224 | 78,881 |
| Service | 748,636,802 | 15,759 |
| Mining | 485,301,725 | 15,117 |
| Construction | 271,696,980 | 11,190 |
| Consultancy | 943,032 | 134 |
| Engineering | 8,237,089 | 421 |
| Financial Institutions | 5,604,975 | 483 |
| Fisheries | 9,009,036 | 1,918 |
| Health | 10,340,799 | 695 |
| Tourism | 341,644,363 | 11,851 |
| Transport | 197,692,949 | 4,293 |

*Source: ZDA, 2007*

**Figure 1: Share of sectors to Total Investments in Zambia 1993-2006**




*Source: ZDA, 2007*

As shown in figure 1 above, Zambia has been receiving most of its investments in the manufacturing sector amounting to 34% of the total investments, followed by the services sector at 18%, agriculture sector at 16% and mining sector at 12% according to the Zambia Development Agency (ZDA) data of 1993 to 2006. These are somewhat surprising figures as we expected more investments in the mining sector considering the fact that Zambia is a natural resource (mining) driven economy. However, it should be noted that these are not actual but approved figures that only capture companies licensed by ZDA hence other mining investments that did not go through Zambia Investment Centre now ZDA may not have been captured, nevertheless, it gives a rough indication that there are a number of manufacturing MNCs that need support from the locals – the SMEs.

Zambia is currently among the poorest countries in the world, according to the World Bank (2004), about 70 percent of the population lives below the poverty line of 1 US Dollar per day. Hence the development of the private sector in Zambia through unlocking the potential of SMEs can not be over emphasized.

Using secondary data, this paper attempts to review the SMEs sector in Zambia and examine the major constraints that have led to its stagnation. It will further examine the pro- SMEs programmes and policies that were implemented by the Southeast Asian countries with reference to Malaysia during its industrialization process and recommend those that could directly be replicated to Zambia bearing in mind the differences in the levels of economic development. It is wise to refer to the Southeast Asian countries such as Malaysia because of its past economic history, which is much similar to that of Zambia's. Both countries had similar initial endowments in terms of natural resources, actually in 1960 and 1970s both countries had almost the same level of economies with similar per capita incomes (see figure 3). While Malaysia had Rubber Trees and Tin as its main natural resources, Zambia had Copper and Cobalt. But Zambia has remained behind in terms of economic development, while Malaysia is now one of the most industrialized countries actually, an upper middle income country which is targeting at becoming a fully developed country by the year 2020. One of the areas that were identified that contributed to the Malaysia's success story is the way they supported their home grown industries, the SMEs. It is undoubtedly that best practices were taken on board by most Southeast Asian countries in terms of supporting their SMEs sector during their process of industrialization and as such, it would be useful for policy makers in Zambia to learn from their experiences. Besides the above mentioned facts, my study is further inspired by the "Triangle of Hope Initiative" which is currently being implemented in Zambia. The initiative tries to replicate the Malaysian economic model to different sectors of the Zambian economy, therefore, this paper will provide some specific policy implications that Zambia may consider as it implements this initiative.

There has been scanty literature on Zambian SMEs, most studies undertaken on

SMEs have generalized their scope as they have either focused on sub-Saharan Africa or the African continent as a whole rather than country specific studies. Mazumdar and Mazaheri (2003) used the so-called Regional Program on Enterprise Development (RPED) data to review the African manufacturing sector that included Zambia. In their paper, although they targeted at large companies, they tried to decompose their data into micro, small, medium, large and very large companies based on the number of employees to categorize the different firm size groups. They observed that African SMEs were not operating at full potential as evidenced by the low Technical Efficiencies they deduced. Furthermore, Mbuta (2007) undertook a study on the SMEs sector with an aim to recommend policies for development of SMEs in Zambia. However, none of the above authors attempted to bring on board lessons that could be learnt from countries whose SMEs sector is vibrant such as the Southeast Asian nations where SMEs make up more than 90 percent of industries (Beyene, 2002). It is in this connection that, the objective of my study is to analyze and review the SMEs sector in Zambia and extract best practice lessons from the Southeast Asian countries (in particular Malaysia) that would be applicable to the Zambian situation and those that may have a greater impact on the SMEs' contribution to economic growth. I will mainly focus on the SMEs manufacturing sector since it is in this sector that industrial vacuum is most feared, although I will also try to review both the Zambian and Southeast Asian industrial policies since they have a direct bearing on the strength of SMEs.

The rest of the paper is organized as follows: chapter 2 reviews and analyses the SMEs policy in Zambia, chapter 3 focuses on the industrial policy of Zambia since it has a direct impact on the SMEs sector, chapter 4 examines and analyses the industrial policies and programmes of Southeast Asian countries the so-called the Asian Tigers with a focus on Malaysia, chapter 5 outlines the lessons that can be learned from the Southeast Asian experience and finally chapter 6 concludes the paper.

## 2. Micro, Small and Medium Enterprises in Zambia

### 2.1. What are they?

There is no universally accepted definition of Micro, Small and Medium Enterprises (SMEs). Each country defines SMEs in a different way according its economic position, among others. However, there is need to have an appropriate definition that reflects the real situation on the ground. A number of SMEs do not access legislative provisions for SMEs such as finance and other facilities because they do not fall in the bracket of the national definition though in the actual fact they may qualify to be called SMEs and on the other hand, other enterprises maybe mature enough and may not require direct government intervention hence the right definition ensures that only those enterprises which genuinely require support are targeted by public schemes.

Zambia is in the process of revising its SME definitions to make them much more effective in addressing the emerging challenges that the sector faces. Nevertheless, the Small Enterprises Development (SED) Act of 1996 defines SMEs as follows:

Firstly, an enterprise is defined as an undertaking engaged in the manufacture or provisions of services or any undertaking carrying out business in the field of manufacturing, construction and trading services but does not include mining or recovery of minerals.

Micro: - an enterprise whose total investment excluding land and buildings does not exceed 50 million Zambian Kwacha; annual turnover that does not exceed 20 million Zambian Kwacha and employing up to 10 persons (note that the current exchange rate is 1 US = 3, 737 ZMK).

Small:- an enterprise whose total investment excluding land and buildings does not exceed 50 million Zambian Kwacha, in case of manufacturing and processing enterprise and 10 million Zambian Kwacha in case of a trading and service enterprise; an annual turnover that does not exceed 80 million Zambian Kwacha and employing up to 30 people.

The act does not provide the definition of medium enterprise.

SMEs business activities are mainly in 4 sectors namely Manufacturing, Trading, Services and Mining although small scale miners are not considered as SMEs according to the Zambian legislation. The following table depicts the SMEs activities in the above named sectors.

**Table 2: Business Activities of SMEs in Zambia**

| | |
|---|---|
| **Manufacturing**<br>Textile products<br>Carpentry and other wood based business<br>Light engineering and Metal Fabrication<br>Food Processing<br>Leather products<br>Handicrafts<br>Processing of semi precious stones<br>Essential Oils<br>Ceramics | **Trading**<br>Consumable products<br>Industrial Products<br>Agricultural inputs<br>Agricultural produce<br>Printing |
| **Services**<br>Restaurants and food production<br>Hair salons and Barbershops<br>Passenger and goods transport<br>Telecommunication services<br>Financial Services<br>Business Centers<br>Cleaning Services<br>Guest Houses<br>Building and Construction | **Mining**<br>Small scale mining<br>Small scale quarrying |

## 2.2. Background

After attaining independence in 1964, Zambia had no policy on the private sector development in particular the SMEs. It had no special legal framework promoting the SMEs since the economy was enjoying the high prices of copper hence ignoring SME sector. The country depended much on mining copper and only the public sector was visible by then. Unfortunately, the copper prices collapsed in 1975 and at the same time the oil prices soared. With decreasing profitability in the copper business, the Zambian government had to find alternative ways of sustaining its economy therefore, after 1981, it begun to initiate policies targeted at promoting SMEs and hence came up with the Small Industries Development Act of 1981 succeeded by the Small Enterprises Development (SED) Act of 1996. Both policies had a negligible impact on the development of SMEs as they were just merely public pronouncements with little effort to implement them.

In the past, Zambians were not very enterprising due to the public sector led economic growth model which excluded them from participating in business activities with the threat of nationalization if an enterprise grow beyond a certain size as such, Zambian people depended entirely on formal employment as a way of earning income. However, after the 1990s, when Zambia adopted the free market economy that were perpetuated by the World Bank (the so called Washington Consensus) and the International Monetary Fund (IMF), it experienced the most severe economic recession. The drastic opening up of the domestic market to cheap and somewhat high quality products left inefficient local producers uncompetitive, hence it became imperative that they had to restructure so as to remain in business and laying out of workers was one of the methods used while other firms closed down operations completely. The opening up of the markets coupled with privatization of the state owned mines (and firms) acted as a ‘double edged sword’ that left a number of citizens unemployed. The Gross Domestic Product declined and poverty levels increased drastically (70%) placing Zambia among the poorest countries in the word. The formation of SMEs were inevitable since most Zambians were now out of formal employment and they had to find other means of surviving, also because of the availability of the market from poor people who preferred to buy goods and services from SMEs that were not so expensive with reasonable quality. The SMEs have however, struggled to graduate and have remained stagnant. Even after the expiry of the Poverty Reduction Strategy Paper (PRSP) (2000 – 2004) (which ran in tandem with the Transitional National Development Plan, 2002 – 2005) that placed the SMEs as one of the instruments to economic recovery, employment creation and poverty reduction, the SMEs sector has remained marginalized and poverty levels are still high.

### 2.3 Significance of SMEs in Zambia

SMEs are the engine of every nation’s economy as they occupy a prominent position in the development of many countries in the world be it least developed, developing and developed countries. Contributions of SMEs can be well noted in a number of aspects including labor absorption, creation of entrepreneurial spirit and innovation, promotion of linkages and complementary role to large companies, wealth creation, among others. In “*The theory of Economic Developmen*t” Schumpeter (1912) emphasized the role of entrepreneur, as a prime cause of economic development, being this development achieved through innovation. Therefore, it is evident that SMEs have been considered to be very vital in any society as early as the beginning of the 20$^{th}$ century. At the local level, SMEs seem to be perfect and an important piece for local development since they have a greater flexibility and ability to change and to respond quickly to changing market demand and supply situations.

In Zambia, SMEs constitute 95 percent of all firms yet most of them are marginalized. Most large enterprises in Zambia are final goods producers which make them well recognized since their products reach the final consumers directly. Furthermore, the number of employees by the SMEs also highlights the significance of SMEs in the economy. It is estimated that only 500,000 (12.5%) of the potential labor force of 4,000,000 Zambians are in formal employment. The remaining 3,500,000 (87.5 %) are engaged in informal employment (SMEs). There is also some evidence that SMEs have generated skills transfer among themselves more especially in the few available clusters such as in the garment sector. The predominance of SMEs is also translated into their contribution to the production value in the manufacturing sector unfortunately, due to scanty information and data I could not quantify the current value added created by SMEs, however, Mbuta (2007) indicated that in 1996, the SME sector produced value added amounting to K 85.7 billion (constant 1994 prices) out of the total GDP of K 2,328.1 billion representing 3.7 percent. He also estimated that the sector contributed 4.7 percent of the total GDP in the same year. Actually most of the SMEs in Zambia are in an informal state and hence are not captured by the Central Statistics Office therefore, their contribution and also the national GDP may somewhat be under estimated. This has in return denied government the much needed revenue as most of the SMEs do not remit taxes. As for the exports, very few SMEs are involved in the production of commercial goods and services and as such they have a negligible contribution to the total exports of Zambia, actually most of them operate at a level of output that is too small to even sufficiently exhaust scale economies. The MCTI (2003) survey reported that 2% of the total SMEs (of which 64 percent were engaged in manufacturing) exported their goods mainly to the neighboring countries.

Nevertheless, SMEs have been depicted as '*an army for ants*' for Zambia more especially after the liberalization and privatization of the economy.

### 2.4 Status of SMEs in Zambia

For SMEs to have a more positive impact on any nation's economy, entrepreneurship in SMEs must be seen on the enterprise start ups, as well as on the enterprise growth. This growth may be the source for more entrepreneurship through spill-overs to the firm, and because it can originate some spill-offs, that will contribute to economic development. However, SMEs require special attention for them to graduate to larger firms. Most SMEs in Zambia have been at a micro level since inception some decade years ago. This stagnation is not only caused by the lack of effective public policy to support SMEs but also the entrepreneur's characteristics such as poor educational backgrounds. Mazumdar and Mazaheri (2003) found that only 13.4% of micro entrepreneurs in Zambia have at least completed vocational training which is regarded as an important tool for the growth of their firms. However, the impact of poor education is envisaged to be minimal in the coming years as most entrepreneurs are engaging their children who have been schooled enough to run their businesses. Furthermore, some entrepreneurs in Zambia would rather not want to grow because they try to evade tax which becomes difficult once they are formalized. As a consequence, most of them prefer opening other micro companies instead of expanding the existing ones hence missing out on advantages of scale economies. Formality is primarily associated with business registration, getting premises and opening bank accounts. Other reasons that discourage SMEs to formalize include: administrative barriers, corruption in public places, socio-cultural attitudes and criminality as some of them are involved in some illegal activities such as selling of smuggled goods, dealing in stolen goods, employing under age workers or engaged in illegal activities such as brothel prostitution business or pornographic movies which are prohibited under the Zambian law (Mbuta, 2007). This explains why 55% of micro enterprises in Zambia are unregistered (MCTI Survey, 2003).

Nevertheless, there have been very few companies that started as micro and are now operating as medium mainly not because of good public policies but their successes are more attributed to the private sector dynamism and external circumstances. The entrepreneur's characteristics such as education and innovational skills do play a vital role in as far as entrepreneurship is concerned. If one happens to ask these enterprises how they have managed to grow, they will hardly mention government as its partner in their success. Therefore, there is need for government to pull up its socks and create a more favorable business environment so that more SMEs are graduated to larger enterprises which in turn will create more wealth for Zambians and contribute to the nation's economic development.

## 2.5 Constraints faced by Zambian SMEs

Despite the macroeconomic reforms undertaken by the government aimed at macroeconomic stabilization i.e. liberalization, privatization among others, the SMEs sector has not yet significantly benefited from them. There have been a number of constraints that have hindered the growth of SMEs in Zambia. The Task Force on SMEs in Zambia (2006) identified some of the constraints affecting the Zambian SMEs as:

(i) **Inadequate Policy Frame Work**

- Although in Zambia's industrial policy, the existence of the informal SME sector is recognized, the references made to the promotion and development of SMEs mainly refer to improving goods and services in the formal sector but not those found in the micro and informal sub-sector, the situation is further exacerbated by the absence of a comprehensive and stand alone policy framework to give direction to efforts and plans aimed at supporting this huge sector. This is therefore a serious constraint on the development of the SME sector in Zambia.

- The Zambia Development Agency (ZDA) Act of 2006, which is the current statute covering the promotion and facilitation of investments in Zambia, is far beyond the reach of most SMEs, because under this Act, incentives are granted to only those investors with qualifying Assets of US$500,000 and above.

It is evident through most economic policy documents, that the sector is not a focus area of most policy makers, and yet a lot of pronounced or documented socio-economic policies have direct or indirect effects on the SME sector.

For example Municipal authorities rely heavily on SMEs for their income but they do not consider how their policy on fees/levies might relate to construction/maintenance of physical infrastructure (roads, markets), or promotional measures for the sector. The fact that the policy makers and implementers have difficulties in understanding the sector, poses a great development question. It means that it will take time to convince urban authorities about the need to change their attitude and accept informal sector entrepreneurs as agents for development, income-generation and employment creation in both urban and rural areas of the economy as a whole.

(ii) **Difficulties in filling capacity Gaps for SMEs**

It is important to note that the biggest difficulty in entrepreneurship development is related to the **"mindset"** or poverty of the mind. This is translated into the following symptoms:

- Poor work culture in public offices, organizations, households and in individual personal lives;
- An attitude of dependency: always expecting government/donor to come up with packages;
- Apathy, believing that we are poor, failing to see potentials that are waiting to be tapped;
- Lack of commitment to desired mission (putting short sighted self interest first and;
- Corruption.

The policy-related and institutional constraints outlined above have also had a direct bearing on the difficulties of filling capacity gaps which is a prerequisite for Zambian firms to survive and grow in the market place. Analysis of the SME sector in Zambia (MCTI, 2003) indicates severe deficiencies in basic management and technical skills relating to the following fundamental areas:

- Strategic management capacities i.e. the ability to manage entry into new markets and organizing labour and capital to respond to the changing markets, technologies and regulations. Such skills are usually acquired through family experience, or through formal education in business strategy development, followed by associated experience in modern firms;
- Functional management skills i.e. skills required in production, finance, purchasing and marketing to improve production of capital, quality control etc;
- Technical management skills i.e. the actual technical know how to achieve the required quality and quantity.

In addition, there has been limited emphasis towards addressing the obvious bottlenecks that impede the development of SMEs, which include:

- Ineffective and uncoordinated support schemes to effectively encourage SMEs to meet both local and export markets;
- Inadequate information resources on trade, investment, technology, training and application of quality control etc;
- Inaccessibility to finance/long-term credit: The MCTI survey (2003) revealed that only 7.2% of Zambian SMEs had access to credit while the majority used their personal savings to start up a business. Furthermore, due to high default rates by SMEs, commercial banks favor large firms as regards to credit lending. The government of Zambia through the Bank of Zambia has however, put in the place the Credit Reference Bureau that reduces the market imperfections such as asymmetric information between the borrowers and lenders as it tracks the credit culture of SMEs, but the problem comes to new SMEs who would want to enter the market without any records to track hence they still remain marginalized.

These are somewhat "traditional constraints" that are faced by most SMEs not only in Africa but also in much developed countries. However, countries in Southeast Asia have directed most of their funding to the SME sector unlike the case of some African countries that mostly wait for the donor community to approach them and solve their problems. Quite alright the donors do come to their rescue but donor driven programs are sometimes not sustainable.

Any country's industrial policy has a bearing on the operations of the SMEs sector and as such it is important to review the industrial policy of Zambia and deduce the implications it has on the SMEs sector. The following section will discuss the current industrial policy that is being implemented by the Zambian government.

## 3 The Industrial Policy of Zambia

Currently Zambia does not have a comprehensive industrial policy but of course the industry is guided by fragmented policies. Nevertheless, Zambia drafted a Commercial, Trade and Industrial (CTI) policy in 1994 but it underwent several revisions to suite the current macroeconomic situation. The draft policy is yet to be approved. However, the draft policy anticipates an expanding manufacturing sector which will contribute to about 20% of GDP as compared to the current 11 %. It also aims at developing a competitive and export-led manufacturing sector. The policy has recognized the importance of SME sector in realization of its vision. Weak supporting industries (SMEs) would negatively affect the industrialization process hence the policy has provisions that are inline with needs of SMEs, however, they are not specific in their provisions.

In 2004, Zambia launched the Private Sector Development (PSD) program aimed at providing an enabling environment for private sector economic activity. The PSD program is a clear testimony of the recognition of the Private Sector as a key partner and player in the development of the Zambian economy. One of the reform areas in the PSD, the local economic empowerment has taken on board the needs of SMEs and it is envisaged that unlocking the SMEs' potential through capacity building and provision of funds will be undertaken.

Zambia is in the process of implementing what is called the Multi-Facility Economic Zones (MFEZ) which is generally targeted at large and hi-tech companies. The MFEZs will have the necessary infrastructure for easy commencement of business activities. Companies that will operate in the MFEZs will qualify for special incentives such as exemption from paying corporate tax for a period up to 5 years and also exemption from paying import duties for intermediate goods and raw materials among others as stipulated in the ZDA Act of 2006 and the MFEZ regulations (2006). This is a welcome initiative! However, to generate larger rewards for the economy from such projects there is need to develop the supply chain mainly the SMEs. The importation of raw materials duty free may injure the SMEs who supply similar goods to the large companies as they will become uncompetitive in terms of pricing. It would be prudent if the MFEZ law encouraged the MFEZ companies to source a certain percentage of raw materials and intermediate goods from the home grown enterprises as long as the materials are available and of acceptable quality. Furthermore, since non- exporting MFEZ firms will also enjoy the same benefits as exporting MFEZ firms, this may injure the domestic industries (both large and small) that depend on local inputs because of production cost differences that will favor MFEZ firms. According to UNCTAD (2006), this discrimination against small investors could be avoided by reducing the overall tax levels and rationalizing the incentive scheme as a way of stimulating both local and foreign investment. As of today, two MFEZs in Lusaka and the Copperbelt provinces have since been identified and will be developed by a Malaysian and Chinese Company respectively. The MFEZ is the outcome of the Triangle of Hope initiative which is currently been supported jointly by the government of Zambia and the Japanese government through the Japan International Corporation Agency (JICA).

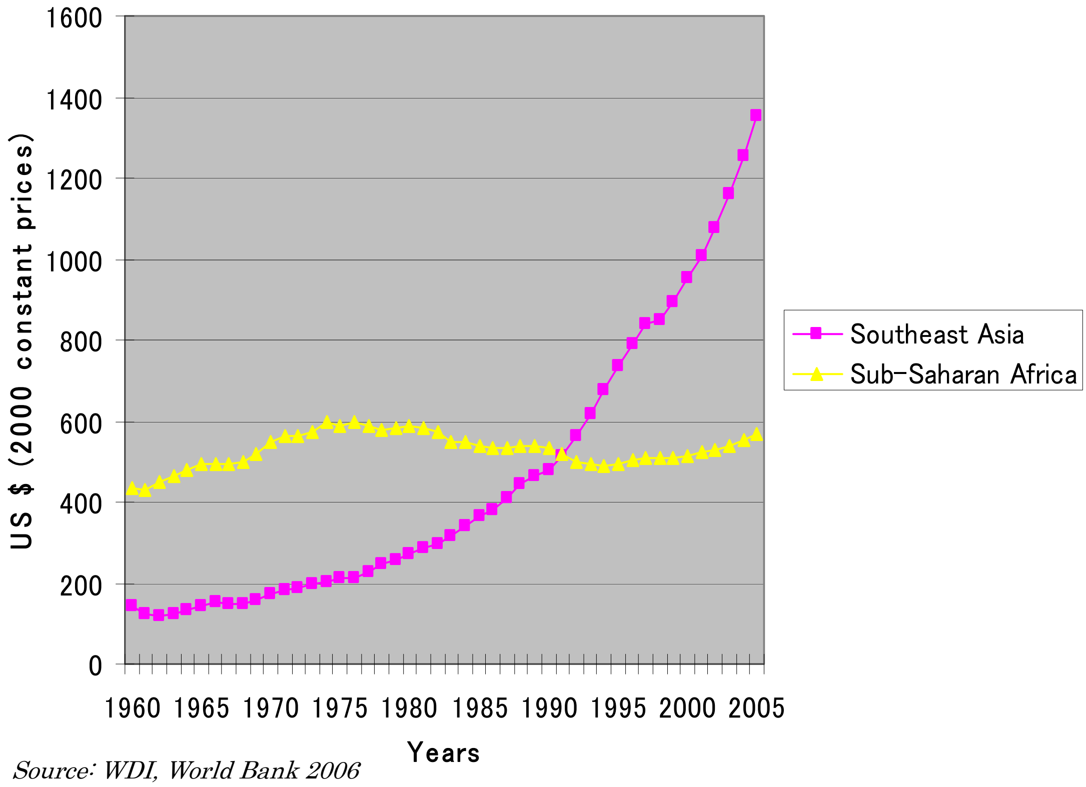
The above policies are anchored on the Fifth National Development Plan (FNDP) which is a principal national document that outlines strategies and programs to be implemented from 2006 to 2011. The FNDP acknowledges the SMEs potential on creation of employment and wealth and has proposed a more general approach to tackle some of the constraints faced by the sector.

The following chapter will review the industrial policy of the Southeast Asian countries the so-called the Asian Tigers. It is critical to look at a broader perspective of how these countries implemented their policies during the industrialization process that resulted into the “East Asian Miracle” and also to try to avoid what led their economic boom to burst.

## 4. Industrial Policies and Programmes of Southeast Asian Countries

It is ironic that Asia, which was twice as poor as Africa 50 years ago, has become twice as rich. Asian countries seem to be doing fine in the global economy partly because they have invested heavily in technology and have been oriented to various skills. In the 1960s and 1970s sub- Saharan Africa’s per capita income was better than that of Southeast Asia （see Perkins and Roemer, 1994）albeit, Southeast Asia greatly surpassed sub-Saharan Africa after the 1990s (see figure 2 below). Africa needs to learn from Southeast Asia how they have managed to develop economically.

Figure 2: Real GDP Per Capita, Southeast Asia and Sub-Saharan Africa, 1960 to 2005

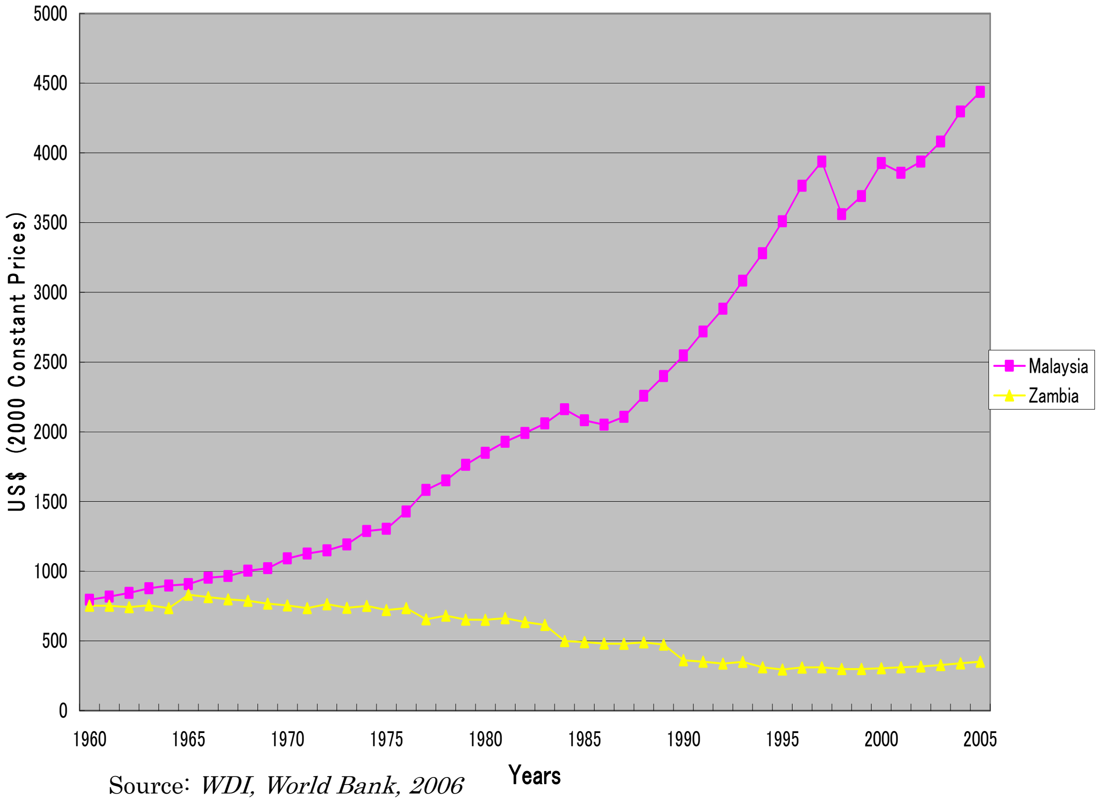



*Source: WDI, World Bank 2006*

As shown in figure 2 above, the taking-off of the Southeast Asian economy is mostly is attributed to one of the most intriguing and compelling issues in the global economic and social development efforts of the past popularly known as the “East Asian Miracle”. By definition, the East-Asian miracle describes a process of unprecedented economic growth which occurred in the mid-seventies to early and mid-nineties (Offiong and Ero, 2002). This was a period when a tremendous economic recovery was experienced by eight East Asian countries, among them, Korea, Hong Kong, Singapore, Philippines, Indonesia, Thailand and Malaysia within a period of about two decades (1970s to 1990s) as depicted in figure 2 above. During this period, these Asian countries adopted favorable policies mostly in the industrial sector that may be of interest to most developing countries that are struggling for economic take-off. Obviously not forgetting that the miracle was not permanent, it collapsed in the mid 1990s and as such those countries trying to learn from this experience have to bear in mind what caused its down fall so as to avoid the same happening to their economies. Some of the notable factors responsible for the fall of the East Asian Miracle were: falling international trade, profits and capital flight among others which I may not go into details (see Ito, 1993).

By examining the above success stories, Zambia may pick one or two strategies to resuscitate its economy although the focus is much more on the SME sector. I will also concentrate much on the past economic history of these countries since it is that time they were struggling to come out from their economic doldrums as is the current case for Zambia. Figure 3 below shows the per capita incomes of Malaysia compared to that of Zambia which was somewhat similar in the 1960s and 1970s but as both economies approached 1980s and afterwards, the gap has amazingly widened.

Figure 3. Real GDP Per Capita, Malaysia and Zambia, 1960 to 2005




Source: *WDI, World Bank, 2006*

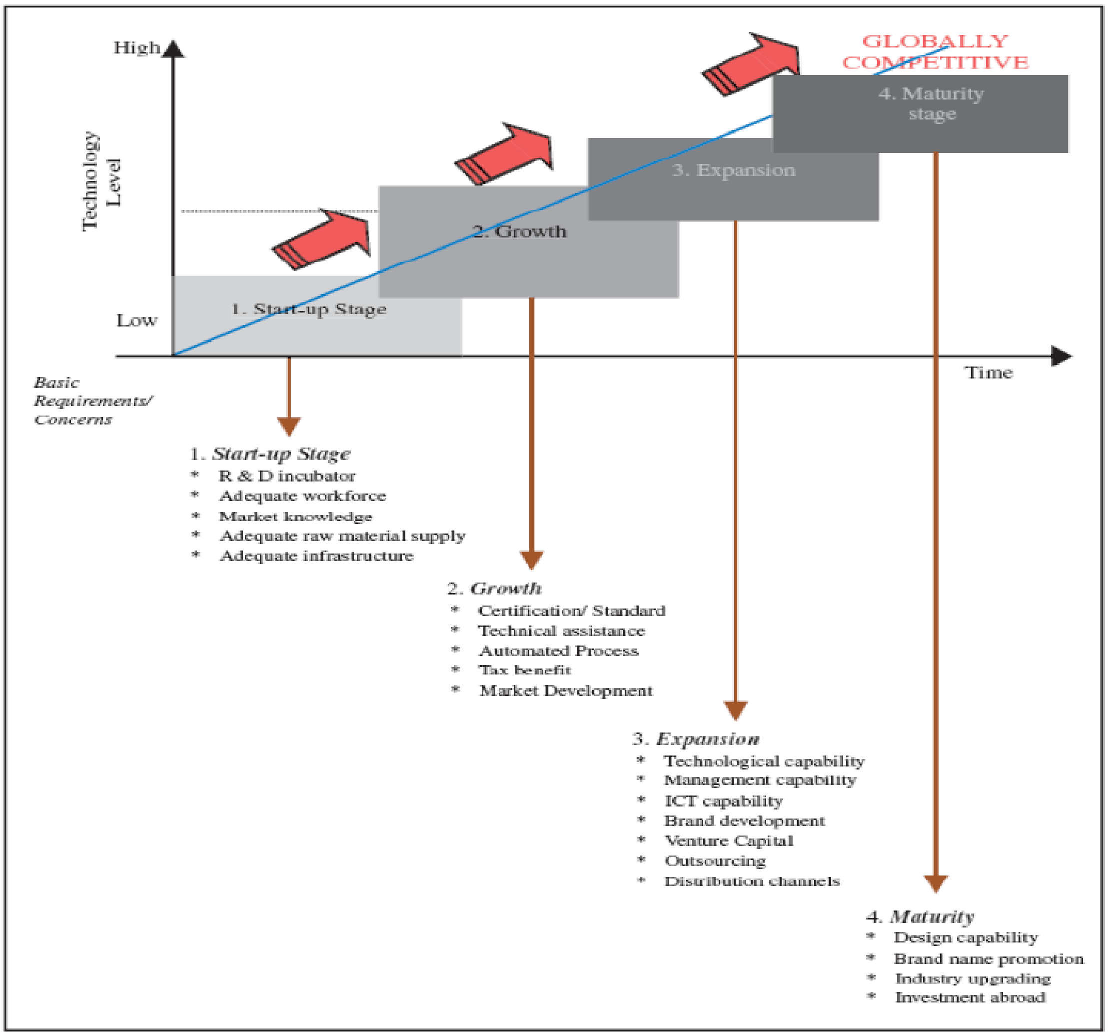
Offiong and Ero (2002) in their paper, identified policies that have to do with technological advancement as one of the policies that most Southeast Asian countries implemented in their process of industrialization which subsequently led to the East Asian Miracle. They agued that the technological capabilities were achieved through the support for education particularly engineering and science education which provided intellectual infrastructure that facilitated technological transfer. Furthermore, science centers were promoted that offered services ranging from identifying new products to providing research and development (R&D) for firms that had no facilities of their own. Mainly R&D was provided to the SMEs that seemed to have no capacity to invest in R&D department that requires huge investments to be set up. The technological transfer was further enhanced by the industrial parks for high technology industries that were developed in countries like Malaysia. The technological development in these industrial parks trickled down to the suppliers mainly the SMEs. This transfer of technology to the SMEs made them become even more competitive that led them to graduate to larger enterprises. SMEs also benefited from the government subsidies mostly the cheap credit. Until now most Southeast Asian countries heavily subsidize their industries and provide different sorts of credit for their firms be it small or large.

The most talked about policies that were implemented by the Southeast Asian countries during their economic take-off phase in the 1960s and early 1970s was the export-oriented industrialization. Some countries like Korea however implemented these policies in the 1960s whilst Malaysia implemented them in the early 1970s. Under this strategy, most policy objectives were aligned with or subjugated to the goal of export-promotion and their governments undertook a sequence of reforms of exchange rate, currency, budget and tax system policies. The governments introduced complex system of incentives to promote exports. Masuyama et al (2001) indicated that during this phase, Korean government deliberately concentrated on industries with relatively low capital requirements such as clothing and wigs which had favorable and rising international demand. The export performance in these countries worked well in overcoming the constraints of narrow domestic markets.

On the other hand, Malaysia's export-oriented industrialization was based on the export processing zones (EPZs), also through the Investment Incentives of 1968 and restriction on labor unionization to entice multinational corporations (MNCs) looking for low cost production abroad (Masuyama et al, 2001 ). EPZ status were given to firms that exported more than 80 percent of its products, or exported more than 50 percent of its products provided that they employed more than 350 full-time regular workers. As much as these export-oriented policies were successful in terms of gross export earnings and overall employment generation, they had serious drawbacks for sustained industrial expansion. One of the issues raised in the edited book by Masuyama et al (2001) was that linkages between EPZ firms and the rest of the economy through the purchase of domestically produced raw materials and capital equipment were insignificant, hence it become imperative for countries like Malaysia to re-focus on a second round of import substitution industrialization (ISI) based on heavy industries in the early 1980s which was also not so successful. Thereafter, Malaysian industrial development was guided by the ten-year Industrial development Plan (IMP 1, 1986 - 1995) which provided the framework for the development of the manufacturing sector. The IMP 1 promoted the processing of natural resources instead of exporting them in raw form. It also stressed the importance of science and technology and human resource development to support the industrialization process. During this period the 1968 Investment Incentives Act was replaced by the 1986 Promotions of Investment Act that provided a wider range of incentives. Special incentives were targeted at export expansion and the development of SMEs that were deem essential to develop inter-industry linkages. SMEs that meet/met certain requirements are/were eligible for different kinds of grants, soft loans and incentives such as higher income tax threshold, pioneer status with full tax exemption for five years and investment tax allowance (offered to SMEs with at least 60% Malaysian equity). Following the expiry of IMP 1, the Industrial Master Plan 2 (IMP2. 1996 – 2005) was then formulated which tried to broaden manufacturing capability through the strategies of cluster-based industrial development and manufacturing plus plus. The manufacturing plus plus is some sort of an integrated and coordinated approach to industrial development emphasizing on the full integration of manufacturing operations through the value chain to enhance industrial linkages and increase productivity and competitiveness.  Following the expiry of the IMP 2, the Industrial Master Plan 3 (IMP 3, 2006 – 2020) currently being implemented was formulated. It aims to further broaden the scope by including services and featuring functional targets such as SMEs, technology, marketing among others. These policies have to a large extent induced the industrial development in Malaysia for example, the MNCs in the electronics industry have spawned SMEs such as metal fabrication, tooling parts, mould and die production among others. These SMEs have graduated into multinational operations and some have formed joint-venture with foreign technology firms to produce high quality parts and equipment. It is evident that Malaysia had more in common with many developing countries than it did with the East Asian newly industrializing countries (NICs). Thus the lessons from Malaysia would be relevant to the debate on trade and industrial policy reforms in developing countries such as Zambia.

Malaysia attaches a great importance as far as SME development is concerned. This is manifested by the forty (40) agencies in charge of SME promotion in Malaysia (Ohno, 2006) and the more than thirty (30) funding agencies. Although the overseer of SMEs in Malaysia is the Small and Medium Industry Development Corporation (SMIDEC) an agency under the Ministry of International Trade and Industry (MITI). Like in most countries, SMEs accounts for 93.8% of all establishments in the manufacturing sector of Malaysia contributing about 27.3% manufacturing output, 25.8% value-added, 27.6% fixed assets and employing 38.9% (FMM Business Guide, 2003). The Malaysian SMEs industry has been growing at a steady rate, its development process has been interesting which maybe of interest to Zambia. Figure 4 below depicts a self-explained diagram showing different phases of enterprise development in Malaysia.

Figure 4: Phases of Development of Enterprises in Malaysia




*Source: SMIDEC, 2002*

The success of the SMEs sector in Malaysia is evidenced by the growth rates in SMEs sub-industries. In all the sub-industries, SMEs have been performing well mainly due to the earlier mentioned industrial policies and also due to the specific SME development programmes that will be discussed later in this paper. Table 3 below shows its SMEs sub-industries' average growth rates of output, capital and Labour in SMEs from 1982 to 2003 revealing a positive growth in all areas.

**Table 3: SMEs sub-industries - Average growth rate of output, capital and Labour in SMEs from 1982 to 2003**

| Industry | Output | Capital | Labour |
|---|---|---|---|
| Food | 4.56 | 0.37 | 4.45 |
| Beverage & tobacco | 2.15 | 1.41 | 3.09 |
| Textiles, wearing apparel & footwear | 7.62 | 8.62 | 1.21 |
| Wood-based | 4.26 | 7.53 | 0.87 |
| Plastic Products | 8.62 | 11.52 | 0.89 |
| Rubber Products | 5.08 | 1.95 | 0.05 |
| Chemical | 8.65 | 10.19 | 0.64 |
| Metal products | 17.00 | 17.77 | 4.91 |
| Non-metallic mineral products | 7.80 | 5.04 | 2.15 |
| Electrical & electronics | 7.92 | 3.84 | 1.60 |
| Transport equipment | 11.10 | 10.96 | 1.18 |

*Source: Idris and Rahmah, 2007*

The Malaysia's SMEs sector is flourishing as shown by the above table, it is unarguably that countries struggling to develop their home grown industries learn from among other countries, Malaysia whose policies and programmes are working well in enhancing and facilitating the development of its SMEs. However, there is need to bear in mind that some of the programmes that are currently being implemented by the Malaysia may not be directed replicated to the Zambian environment. Malaysia is investing huge sums of money in terms of grants and soft loans among others, to support its SMEs sector that may not be easy for Zambia to replicate due to the different levels of economic development. Nevertheless, some programmes require little funding or no funding at all and are working very effective as regards to SMEs development in Malaysia. The following are some of the pro-SME programmes that were/are being implemented by Malaysia that could be adopted or adapted to the Zambian environment, extracted from the FMM Business Guide for Small and Medium-size Industries (2003):

**The Vendor Development Programme**

The Vendor Development Programme (VDP) is aimed at developing SMEs as a dynamic supporting industry to local large industries or Multinational Corporations (MNCs). The programme is implemented through tripartite arrangement between the Ministry in charge of entrepreneur development (lead agency), large industries (anchor companies) and financial institutions. This programme will indeed promote industrial linkages between SMEs and large corporations. The linkages will create industrial market as large industries appoint SMEs as their reliable vendors in components manufacturing and related supporting industries. Under the programme, large industries too will provide guidance to the SMEs through technical and training facilities. Meanwhile financial institutions will render comprehensive financial package with related management and consultancy services to SMEs. A similar programme although not exactly is the one that is being implemented by Mozambique Aluminum Smelter (Mozal) through it Mozlink programme (BHP Billiton, 2004) which is responsible for the development of more than 200 SMEs in Mozambique. India on the other hand is also a success story as regards to implementing the VDP is concerned. The VDP works well for MNCs who do not prefer to import parts and components from abroad as they implement modern management systems such as the "Just In Time" and the "Zero Inventory" in order to be globally competitive since transaction costs are greatly reduced.

**The Industrial Linkage Programme and Global Supplier Programme**

The Industrial Linkage Programme (ILP) aims to forge linkages between SMEs with large companies and MNCs. The programme facilitate market access and technology transfer to the SMEs. To encourage participation in this programme, specific incentives have been formulated to assist both large companies/MNCs and SMEs. These include tax deduction for expenses incurred by the large companies/MNCs in training the employees of vendors, product development and testing, and factory auditing to ensure the quality of vendors' products. For participating SMEs they will be considered for pioneer status and investment tax allowance.

The ILP requires participating SMEs to achieve competencies in supplying parts and components and services required by the MNCs. To assist the SMEs in acquiring the competencies, the Global Supplier Programme (GSP) was introduced in 1999. Under the programme, SMIDEC, in collaboration with the training institutions and MNCs, works out training modules necessary for the SMEs to acquire core competencies to supply parts and components and services. It aims to enhance the capacity and capability of SMEs as suppliers to MNCs.

**The Small Aggregation Initiative**

The Small Aggregation Initiative (SAI) is a Malaysian initiative that was proposed to Zambia for implementation through the Triangle of Hope initiative. SMEs wish to expand but they face numerous constraints such as lack of credit among others, however, even when they get funds, the new machinery and equipment they acquire sometimes are "too productive" for limited needs i.e. they may have a market for 100 pieces but the new machinery now produces 500 pieces. In such a situation the government or the private sector may come in to help. How do they do it? By selecting an industry group that has similar needs of machinery, but where the end products are different e.g. Manufacturer of wooden furniture such as bedroom furniture, dining room furniture, cupboards kitchen furniture, office furniture etc., the initial machinery will be similar - sawing, planning, shaping etc only the end product / finishing section will be different. Therefore, the government or other coordinators selects within the industry group, manufacturer of non-competing products in this case the manufacturers of bedroom furniture, office furniture, kitchen cabinets etc. Bring them together to form a joint venture company for expansion / modernization purposes. If three companies are brought together - each can take 30% equity and the 10% held by the coordinators (government or the private sector). By merging the SMEs together, they acquire the strength of the medium scale industrialist and enjoy larger scale production advantages i.e. Purchase modern machinery / equipment (now the volume of production is not critical: - if each manufacturer needs only 1000 items and the machine can produce 3000 or 4000 items), better negotiations of loans from banks, renting a bigger space, joint marketing etc. If foreign companies can form joint ventures with local investors for profit - why can't locals do the same?

**Loans: Fund for Small and Medium Industries and New Entrepreneur Fund**

These programmes were aimed at promoting SME activities in export and domestic oriented sector and also to help stimulate growth of SMEs. The maximum interest rates were 5% p.a. with a maximum tenure of 3 to 5 years.

**The Enterprise 50 Award**

In the age of intense competition, local companies (SMEs inclusive) are faced with tremendous challenges to be competitive globally. The world market rules that only those who are capable of adjusting to the dynamic changes in the market place will survive – companies capable of positioning themselves for the future. Enterprise 50 was borne of a need to recognize such locally established businesses.

## 5. What Lessons Can Zambia Learn From the Southeast Asian Experience?

In order to replicate the policies/programmes that were undertaken in Southeast Asian countries, undoubtedly Zambia needs some basic preconditions for economic take-off as evidenced in the Southeast Asian countries prior to their economic miracle. Preconditions such as strong and effective institutions, physical/social infrastructure, and stable political and macroeconomic environment would create the right business environment for private sector to flourish be it large or small.

We have learnt that education facilitated the technological transfer that was cardinal for the East Asian Miracle. Why most Asian countries succeeded in their economic development was because they had an educated work force necessary for adapting the modern technology. Unless the entrepreneurs are trained or rather educated no matter how the technology may be brought into the country say by the MNCs, it will hardly trickle down to the SMEs. Upgrading the vocational centers and signing training agreements between the SMEs and the vocational centers coupled with increased investments in research and development like was the case in Malaysia (the GSP) would go a long way in improving the skills and technological transfer to the Zambian SMEs.

We have also observed that export oriented policies played a major role in driving the Southeast Asian economies. Zambia's national industrial policy goal is to develop a competitive, export-led manufacturing sector that contributes 20% of GDP by 2015. This is a step in the right direction and as already discussed, Zambia is implementing the MFEZ much more similar to the EPZs that Malaysia and other Southeast Asian countries implemented during their industrialization process. However, we have learnt that the EPZs in Malaysia were not sustainable due to the fact that the linkages between EPZs and the domestic firms were insignificant or rather weak and hence Malaysia embarked on Promotions and Investments Act (1986) that emphasized on inter-industry linkages through SMEs development. Likewise, Zambia may consider introducing deliberate policies that will ensure linkages between the MFEZ firms and the SMEs which currently is not in place. I would have been pleased to see a clause in the ZDA Act (2006) that should compel the MFEZ firms to acquire a certain percentage of the raw materials and intermediate goods from the domestic market preferably the SMEs, however, this local content requirement violates the World Trade Organization (WTO) rules and considering the fact that Zambia is a member of WTO, this may not be feasible, therefore, the only hope remains in incentivizing the MNCs so that they are encouraged to create linkages with the SMEs (like the ILP) within the MFEZs.

Talking about the export-oriented industries like those that will be established in the MFEZs, this will work well for a country like Zambia that has not only a small domestic market but also a relatively lower purchasing power. In fact MNCs wishing to invest in Zambia should not be looking at the domestic market but rather at a regional market that has a population of more than 350 million i.e. the Common Market of Eastern and Southern Africa (COMESA) and Southern Africa Development Community (SADC) regions in which Zambia belongs to. Empirical evidence exists showing that the Zambian domestic market is not a factor that determines the inflows of FDI into Zambia (Chisala, 2006). Therefore, through the EPZs or MFEZs can Zambia attract more export-oriented FDI that in turn would boost the ancillary and supporting industries mostly the SMEs. Having said that, Zambia has to take note of the factors that led to the failure of most EPZs in Africa so as to avoid them. Lall and Pietrobell (2002) indicated that with an exception of Mauritius, hardly any African EPZs can be regarded as successful in terms of attracting FDI or stimulating exports and employment as most of them appear to fall short of best-practices standards. One of the solutions as seen from the Malaysian experience, is to integrate the EPZs with the domestic economy (large and SMEs) and to increase the role of the private sector in zone development at the same time relaxing the bureaucratic and restrictive investment related policy frameworks.

Developing the SME sector through linkages will at a very great extent sustain the success of the MFEZ in Zambia as evident from the Malaysian automobile industry. The success of the Malaysian automobile industry which was once regarded as an "infant industry" lies in the linkages that were developed with the "*Bumiputra*" (indigenous) firms mainly the SMEs. Malaysia's policy objective as regard to this industry was gradually to increase domestic value added from semi-knocked down (SKD) to completely knocked down (CKD) assembly and more substantial manufacturing activities with an increasing proportion of domestically made part and components thereby developing strong forward and backward linkages with the rest of the economy, and of course transfer of industrial technology. The first national car company that was launched in Malaysia, Perusahaan Otomobil Nasional (Proton) in 1983 has provided the basis for development of local component industries (SMEs) as well as enhanced the utilization of local components. Since 1985, Proton, the first anchor firm in the VDP, has been aggressively developing and sourcing components from local vendors (SMEs). In 1992, Proton sponsored the formation of Proton Vendors Association to institutionalize linkages with and among different segments of local auto parts industry mainly SMEs. By 1995, a total of 138 local vendors had been developed that supplied more than 3,000 locally produced parts and components to national car projects. Another sector worth mentioning that has succeeded as regard to linkages between MNCs and SMEs in Malaysia is the electronics industry. Besides material production inputs, strong linkages between electronics MNCs and SMEs involved sourcing of indirect inputs, such as equipment and tools (e.g. jigs and fixtures). Local sourcing of indirect inputs developed, both through subcontracting arrangements and through arm's length market purchases. As a result of these linkages, SMEs machine tools manufacturers have expanded from simple parts fabrication to high-precision tooling and production of fully automated systems, some of which were exported. Ismail's (1999) study revealed that foreign electronics MNCs assisted local firms (SMEs inclusive) in beginning to manufacture parts that were previously imported, e.g. by providing local manufacturing with drawings and written specifications. In other words, MNCs have actively encouraged and supported local firms to acquire the technical capabilities needed to produce component parts. In some cases, MNCs engineers were seconded to local suppliers' factories for up to two weeks to build capacity to the locals and in other cases, managers and employees of SMEs suppliers were invited to attend courses on quality control conducted by the MNCs. This is the culture that needs to be developed between Zambian MNCs and the local firms more especially the SMEs. For additional lessons of developing linkages of large firms and SMEs, the Japanese automobile assemblers such as Toyota, Mitsubishi, Isuzu and Nissan could also provide good case studies with their *keiretsu* system of suppliers (see Buranathanung 1997).

We have observed that linkages play a very critical role as regard to developing the home grown industries, the SMEs. However, we can not run away from their shortcomings, for example, following the expansion of the automobile assemblers in Malaysia, it became difficult for local parts makers to achieve economies of scale, as a result, local parts become expensive. This can be avoided if financial institutions (i.e. through the VDP) provide resources so that local suppliers can acquire more equipment and machinery to expand their production in accordance with the increased demand. In addition, through the technology transfer from MNCs to local suppliers (SMEs), we can expect high total factor productivities (TFP) exhibited by SMEs hence problems of meeting increased demands maybe offset. Shortcomings to do with market imperfections such as asymmetric information between the vendors and the anchor firms (*agency problems*) can mainly be avoided by "*the community relationship*" i.e. the spirit of mutual trust between/amongst the players involved (see Hayami, 2001).

As discussed earlier, Zambia's FDI outlook seems to be very bright. For the first time, since late 1980s, Zambia had a motor assembly industry launched by Tata Zambia in 2005. Tata Zambia spent US$3 million to revive the motor assembly plant, which is the only one in the country now that Rover Zambia in Ndola and Fiat in Livingstone ceased to assemble vehicles sometime back. However, linkages of local industries or rather the SMEs have not yet been developed with this automobile industry. Learning from the VDP, local firms could be identified as vendors, Tata (anchor firm) could therefore, transfer the skill and technology so that these firms produce components of acceptable international standards. For example, the garment manufacturing SMEs could be supplying materials for making seats whilst others in the metal fabrication could provide bolts and nuts etc. Furthermore, a Malaysian cellular phone manufacturing firm 'M' mobile in partnership with a local company Melcome is to establish a mobile phone assembly plant in Lusaka at a total investment out lay of US$3 million and is expected to start operations later this year (Times of Zambia, 2008). Since this operation will be the first of its kind in Zambia hence capacity will need to be built for SMEs if they are to become vendors to this mobile industry. Only through the VDP can we expect forward and backward linkages to be created for the sustainability of the mobile industry in Zambia as it strives to become the hub for exports of cellular phones in the region. Another very critical sector that could revitalize the SME sector in Zambia through development of linkages is the mining sector. The mining sector is the largest contributor to Zambia's exports claiming 74% of total exports and it is one of the fastest growing sectors. Although Zambia is trying to diversify its economy from the traditional dependence on copper to other sectors, the mining sector has been booming in the recent years. In addition to the already existing mines that are currently being expanded, two more mines were recently opened namely the Kanshashi mine and Lumwana mine that is said to be the world's biggest copper mine. These new mines are owned by MNCs, also the old mines after undergoing privatization they went into foreign hands – the MNCs. Concerns have arisen in the past that these MNCs tend to favor imported inputs at the expense of Zambian SMEs suppliers. Although there is a well-developed supplier network in Zambia, very little of the equipment supplied into the Zambian industry is locally manufactured, and most distributors have long-standing agreements with South African and to an extent European and Australian suppliers. Moreover, there is a strong foreign engineering presence in the country, which feeds into the mining and metals fabrication sector. Most local companies tend to operate at the services/maintenance end of the field, rather than at the actual manufacturing or fabrication end. The quality of local supplies can be an issue, therefore, this could mostly be resolved through programmes such as the VDP that can enhance the SMEs/local suppliers' capabilities. Thanks to the International Finance Corporation (IFC), the private sector arm of the World Bank Group that launched a partnership with three leading mining firms in Zambia aimed at developing supply opportunities for local SMEs. The three partner mining firms are Mopani Copper Mines, First Quantum Mining and Operations Limited, and Kansanshi Mining Plc. Under this program called the Copperbelt Small and Medium Suppliers Development Program, IFC will help the three mining firms develop and increase the local involvement in their supply chains with an aim to mobilize, train, and support over 50 Zambian SMEs (IFC website, 2006). This is the step in the right direction as a number of SMEs will take advantage of the program to supply goods and services such as pumps and valves, protective wear, storage equipment, health and safety equipment, drilling equipment, consumables, metal fabrication, civil construction, and precision engineering among others.

To divert a little bit from the scope of my study, other areas that seriously need to develop linkages with the SMEs is the services sector, mostly the retailers such as Shoprite, Game Stores etc. There have been reports that Shoprite sources its fresh vegetables and farm produce such as cabbage, potatoes, onions, tomatoes and eggs from South Africa when the same imports are abundantly available on the local market. Muneku (2003) in his paper reported that local small farmers have been complaining that Shoprite discriminates against local farm produce in preference of imported produce distributed by its subsidiary Fresh mark. Surprisingly, Shoprite has a policy to support the local supply (Miller, 2005) but whether this policy is honored or not is a big question. Nevertheless, there have been some successes as regard to linkages between MNCs and SMEs, i.e. Zambian Breweries and Zambia Sugar both owned by South African firms have established links with the locals through out grower schemes. The locals supply sorghum in the case of Zambian Breweries (2,500 small scale farmers are involved) and sugar canes in the case of Zambia Sugar Company. In the agricultural sector, cotton and horticulture sub sectors have provided more links with the local producers where cotton and flower arrangements have been made with small individual farmers. Dunavant a United States MNC, buys approximately 57 percent of the national cotton crop, and has 100,000 out growers.

Besides the strong linkages that were created amongst the enterprises, Malaysia, in its IMP 2 supported the cluster-based industrial development. The cluster-based industrial development or the industrial clusters are not only common in Malaysia but also to other Asian countries such as Thailand, Indonesia, China, India and Japan. In their research paper, Otsuka and Sonobe (2006) revealed that industrial clusters have made significant contribution to industrial development in East Asian countries. This strategy of industrial development is also gradually gaining its recognition in most African countries such as Ethiopia, Kenya and Ghana. Industrial clusters in Africa mainly consist of SMEs and are said to be very important as far as employment creation and poverty reduction are concerned (Ostuka, 2006). Being in a cluster offsets some of the constraints regularly faced by SMEs. If transacting parties are located near each other, transport costs are saved, transaction costs due to imperfect market contract enforcement are lowered, and good products and superior production practices diffuse quickly. Thus, industrial clusters generates agglomeration benefits such as division of labor among enterprises, the development of the market for skilled workers, and the dissemination of technical and managerial knowledge (see Sonobe et al, 2006). Very few clusters, if any, can be observed in Zambia. Therefore, Zambia could identify the few clusters that are available and start helping them to upgrade by providing them with more space, support activities leading to innovation by means of providing training programs for technological, managerial and marketing advancement (e.g. through the VDP). Furthermore, encouraging the SMEs' employees to start their own enterprises. Since profit-seeking private enterprises have little incentive to encourage their trained employees to start their own business, the public sector should provide facilities that serve as incubators for future entrepreneurs. On the other hand, training of SMEs in a cluster will stimulate multi-faceted innovations which in turn encourage growth for the clusters. In Ethiopia, clusters are succeeding especially in the shoe industry mainly because of the tendency by Ethiopian entrepreneurs' frequent visits to Italy to learn designs, production methods and marketing skills (Sonobe et al, 2006). The same success is prevailing in Bangladesh's huge garment cluster that learns and adapts technology and management know how from Korea (Sonobe et al, 2006).

Regarding the Small Aggregation Initiative (SAI), creating joint ventures amongst local SMEs is a brilliant idea as they would take advantage of scale economies and share the risks involved in conducting their businesses among others. SMEs in Zambia fail to win government tenders mostly due to low production capacities, hence merging the SMEs that produce similar products would enhance their productivities and take advantage of the public tenders which most likely will also be facilitated by the introduction of Zambia's Citizen's Economic Empowerment Initiative that will aim at, among others, giving special preferences to SMEs in terms of giving out public tenders. The SAI aims at striking a balance or rather an equilibrium in terms of production and the market demand. Hence it is important that SMEs operate efficiently so that they neither under-produce nor over-produce in accordance with the market availability.

Learning from the Enterprise 50 Award, Zambia could come up with a "Minister's Award" that would be recognizing the best SME's performers in terms of production, quality control and job creation. This definitely could be a motivating factor to the SMEs community.

As for the loans, Zambia may need to put in place a revolving fund for SME Development with very minimal interest rates. This may go a long way to improve the current status of the SMEs as they are mostly constrained by credit which in turn also limits their entrepreneurship innovations. It may also lessen the SMEs' competition of securing loans from commercial banks and in return this may induce lower lending rates by the banks. Nevertheless, the Zambian government has tried to reduce borrowing from commercial banks to as low as 1.2% of GDP in hope of making more money available for lending to the private sector at reduced interest rates, alas interest rates have remained as high as 27% which is practically not viable for a small entrepreneurs who would want to venture into manufacturing or agricultural activities. For traders this maybe affordable as they would buy their commodities and resell them in a shortest period possible and reap some profits. Therefore, in order to revive its manufacturing base, the Zambia remains with no choice but to intervene.

Well, having analyzed and recommended various policies and programmes, the next question that any reader must be asking himself/herself is whether these policies and programmes are feasible in Zambia. The simple answer I would give is a "YES", they are indeed feasible due the fact that there exist both political and bureaucratic will in Zambia. On the political will, this is evident by the commitment of the current government to improve the status of Zambian people by luring more investments for job and wealth creation and also by getting involved in programmes targeted at private sector development. Currently the Head of State in Zambia and his ministers participate in what are called the Zambia International Business Advisory Council (ZIBAC) meetings that are held once every year. ZIBAC aims to draw government and the private sector in closer working relations to foster economic development. Furthermore, the implementation of the already discussed Citizens Economic Empowerment Act (2006) is a clear manifestation of the commitment by the government to address problems that are currently faced by the SMEs.

Besides the Head of State being actively involved in the private sector development, some notable parliamentarians are also eager to bring development in Zambia while the bureaucrats try as much as possible to come up with good policies for implementation. Therefore, this commitment and partnership of the public sector (politicians), the private sector and the civil servants (bureaucrats) together provides a "triangle of hope" for implementing good economic policies and programmes for wealth creation and betterment of the Zambian economy.

**6. Conclusion**

Empirical studies have shown that the manufacturing sector in Africa of which more than 80% consists SMEs, is stagnant. The issue at hand for Africa, Zambia in particular, is to come up with a mix of policies and strategies for unlocking this very important sector so that it performs at the frontier and in return contributes to poverty reduction and economic growth. But the question lies in finding the right "*key*" to be used in unlocking the SME sector. Learning from other countries such as those in Southeast Asia who have developed their economies through vibrant SMEs as one of their strategies, Zambia could apply some of the practical policies and programmes that were implemented as it strives to meet the UN MDGs and also realizing its vision of becoming a middle income country by 2030.

Zambia has not yet experienced an economic take-off, however some pre-conditions needed for taking off seem to be bright as it is currently enjoying a favorable and stable political and macroeconomic environment evidenced by an economic growth of more than 5% for the past 6 years, a stable exchange rate and a single digit inflation rate for the first time in more than 40 years. This might be the right time to take advantage of the good political and macroeconomic climate and start implementing effective policies that countries in Southeast Asia implemented during their take-off so that the economic benefits can start trickling down to the poor people on the ground.

As evidenced by the outlined programmes that were implement in Malaysia in chapter 5, we have learnt that whilst direct support measures (e.g. grants and soft loans) may be justified to address areas of demonstrated market failures or social objectives, it is important to recognize that they are only one of the variety of ways in which government can influence the ability of SMEs to survive and grow. Supporting industrial clusters and creating linkages between MNCs and SMEs facilitates training, education, R&D, technology transfer, innovation and creates a platform for financial support hence Zambia should focus implementing policies and programmes that encourage linkages of its SME sector with larger firms by learning from Southeast Asian countries more especially that it is currently receiving huge FDI inflows and also with the coming of the MFEZs which will stimulate more FDI inflows. These measures once undertaken will create employment, wealth and finally, reverse Zambia's economic deterioration while accelerating growth.

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