# Drivers for Diversification: Firm Productivity and Export Growth

*24th November 2016*

## Event Report

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### 1. Introduction

IGC Zambia and the Zambia Development Agency [ZDA] held a joint dissemination event under the theme "Drivers for Diversification: Firm Productivity and Export Growth". The half day event took place on 24th November 2016 at the Taj Pamodzi Hotel, Lusaka and brought together local and international researchers as well as government officials to discuss firm capabilities and export performance relevant for Zambia's drive towards diversification and industrialisation. Over 90 participants attended the event.

Recent IGC research was presented on:

- Management Quality, Productivity and Profitability of Zambian Manufacturing Firms by Grayson Koyi, Mushiba Nyamazana and Patricia Funjika Mulenga.
- Exports, Intermediate Imports and Exchange Rate Volatility in Zambia by Neil Rankin and Joseph Simumba.

The two papers revealed interesting characteristics of firms in Zambia while showing how exchange rate movements affect export performance and the important role of quality management to achieving firm level profitability, both of which are critical for the diversification agenda.

The Zambia Development Agency also presented on "Export Development Programmes in Zambia". The Kaizen Institute of Zambia shared its programmes and successes in enhancing firm productivity in Zambia.

The event was chaired by Mr. Mukula Makasa, Director of Enterprise Development at the Zambia Development Agency.

## 2. Opening Session

Director General of ZDA, Mr. Patrick Chisanga gave an opening speech acknowledging the value of the IGC research papers in informing ZDA's understanding of firm characteristics and export behaviour. Mr. Chisanga noted that Zambia's export base remained small and concentrated, a reflection of low levels of diversification in the Zambian economy, which therefore raised the value of IGC research in influencing policy for Zambia's economic diversification.

The IGC Zambia Country Director, Anand Rajaram introduced IGC as a source of independent policy research, and pointed to the thematic focus areas - State Capabilities, Firms, Cities, and Energy. He noted that IGC-Zambia puts out a call for proposals twice a year on topics of relevance to Zambia's growth and development under these four themes and selects high quality proposals which are often undertaken by international and local researchers. He noted that the two papers presented at the session were examples of such work and were intended to inform policy makers interested in understanding the microeconomics of firms in Lusaka and Copperbelt provinces.

## 3. Session One

Mr. Grayson Koyi presented his paper (with co-authors) on "Management Quality, Productivity and Profitability of Zambian Manufacturing Firms". The study shows that adoption of quality management practices contribute to improvements in productivity and profitability, suggesting that adoption of such practices could improve the competitiveness of manufacturing industry in Zambia. In all, the key messages from the presentation were:

i. Quality management and productivity improvement can lead to sustainable job creation. The government can leverage its job creation strategy by encouraging firms to adopt quality management and factor productivity improvements.
ii. The evidence from the study suggested that the costs of quality management are more than offset by the productivity, customer loyalty, and sales effects that are ultimately profit-enhancing. However, tax incentives might help promote adoption of QM practices.
iii. Making basic quality management training more widely accessible would improve productivity.
iv. The government could engage key players in the industry, such as the Zambia Association of Manufacturers, to make the profitability of quality management well known to its membership.

v. An institution, such as a National Productivity Institute, could coordinate quality management and productivity improvements at the country-level and help to catalyse broader interest in quality management.

The Kaizen Institute of Zambia's CEO, Mr. Chola Mwitwa, made a brief presentation on the Kaizen's institute's programmes aimed at enhancing productivity in Zambia. Working closely with the National Productivity Department of the Ministry of Labour, the Kaizen institute, with the support of JICA has worked with 50 organisations in enhancing firm productivity, including ZamShu, a subsidiary of the agro-processing conglomerate, ZAMBEEF; Lusaka Water and Sewerage Company, and Kalulushi Water and Sewerage. Mr. Mwitwa called for research that would help in establishing baseline indicators for national productivity which would be used to gauge the performance of productivity enhancing programmes in Zambia.

**Open Discussion**

Key issues rose during the open discussion. Action Aid International challenged the policy recommendation of the need for enterprise support from government such as tax incentives. The concern was that if investment in management practices enhanced productivity and profitability, then why would firms need tax incentives? Mr. Koyi, in justifying the recommendation argued that investment in Quality Management comes with aspects of training. Initial training costs, however, could be offset overtime by productivity and profitability gains. The incentives suggested are those aimed at spurring initial uptake of quality management practices for firms that have initial constraints of uptake. He suggested that the incentives need not be fiscal, but could be in the form of training rebates.

## 4. Session Two

Dr. Neil Rankin presented his paper (with co-author) on "Exports, Intermediate Imports and Exchange Rate Volatility in Zambia". Zambian trade values are highly concentrated with about 80% of export value being accounted for by a small group of continuous exporters. However, there are a large number of firms (and varieties or country-product combinations) that export sporadically.

The study shows that somewhat counter-intuitively, a more volatile currency does not decrease export variety entry but rather increases it. The relationship between export variety churn and exchange rate volatility is higher amongst firms that import too. This suggests that sporadic trade participation may be a response by firms to short-term arbitrage opportunities rather than long-term stable trading relationships. In all, the key policy messages from the presentation were:

i. The first is to enlarge the pool of firms that can become continuous exporters. New firms, either local or through foreign direct investment (FDI), are one source of this pool. The other is by encouraging sporadic exporters to become continuous, although this is unlikely to be easy given that these firms are, on average, different in their endowments. Policies need to focus on the conditions, such as the business environment and productivity improvements, which facilitate more robust firm capabilities.
ii. The second area is exchange rate volatility. The results from the paper indicate that volatility encourages a group of 'arbitragers' – firms that take advantage of this volatility to trade sporadically but their contribution remains limited. Growing non-traditional exports – an important objective for Zambia's diversification agenda - would require a stable macroeconomic environment augmented by productivity enhancing policies for firms. A more stable exchange rate could encourage these firms to become fuller participants in the export market. Furthermore, a more developed financial market could help hedge against exchange rate risk and thus enhance fuller participation of firms in the export market.

In supporting the research paper on exports, intermediate imports and exchange rate volatility, the ZDA's Acting Director of the Export Development Division, Mr. Albert Halwampa made a presentation on Export Development Programmes in Zambia that are spearheaded by the ZDA. The key programmes range from capacity building for MSMEs to enable effective participation in the export market; trade promotion and facilitation activities such as export financing and negotiation. In the pursuit of the promotion of exports, the ZDA emphasised the need for Zambian businesses to exploit the Congo DR market, particularly the Katanga Province which currently accounts for about 30% of Zambia's non-traditional exports. The Congo DR is deemed as the easy readily accessible market which Zambian firms must take advantage of. He also requested think tanks to work closely with the ZDA in the development of research that would enhance ZDA's mandate in the promotion of the growth of the Zambian export sector.

**Open Discussion**

Prof. Venkatesh Seshamani of the University of Zambia raised a query regarding conditions for continuous exporters. He argued that local conditions within which a product is developed will determine whether it is continuously exported or not. If firms produce in an open economy with competition from imports of final goods, this competition may drive them out of the industry if they are producing inefficiently, and thus reduce their participation in the export market. His concern was on the importance of imports in driving sporadic exports. Neil Rankin argued that contrary, more productive firms import more. So if it's more difficult to import, domestic firms become less efficient and export less. Given the Zambian economy, the importation of intermediate inputs is important for the growth of the export sector.

There was concern on the viability of the Congo DR market given the state of that country's institutions and security. Mr. Albert Halwampa argued that higher risk is associated with higher reward and the Congo DR market is a viable market for Zambian products and Zambian producers should take advantage of it.

## 5. Conclusion

In concluding the event, Dr. Anand Rajaram noted that diversification would require macroeconomic stability as a necessary condition but also better management of revenues from copper where price volatility creates Dutch Disease effects which undermine efforts at diversification by making imports more attractive. He also talked about the need for research and thinking on how Zambia could better benefit from copper price booms which seem not to have benefited the poor.

Mr. Mukula Makasa closed the event on behalf of the ZDA and thanked the collaboration between the IGC and the ZDA. In reiterating the presentation from the ZDA, he challenged Zambian firms to take advantage of the large regional market, particularly the Congo DR in developing Zambia's export base.

## Event Agenda

| TIME | ACTIVITIES | RESPONSIBILITY |
|---|---|---|
| Drivers for Diversification: Firm Productivity and Export Growth | | |
| 08:00 – 09:00 | Registration of Invited Guests | ZDA/IGC |
| **SESSION 1** | | |
| 09:00 – 09:15 | Opening Remarks | 1. International Growth Centre (IGC)<br>2. Zambia Development Agency (ZDA) |
| 09:15 – 10:15 | **Presentations:**<br>1. *Management Quality, Productivity and Profitability of Zambian Manufacturing Firms*<br>2. *Institutionalising Productivity in Zambia: A Practitioner's Perspective* | 1. IGC Researcher: Grayson Koyi<br>2. Ministry of Labour and Social Security: National Productivity Department |
| 10:15 – 10:45 | Open Stakeholder Discussions | All Participants |
| **10:45 – 11:00** | **TEA BREAK** | **All Participants** |
| **SESSION 2** | | |
| 11:00 – 12:00 | **Presentations:**<br>1. *Exports, Intermediate Imports and Exchange Rate Volatility in Zambia*<br>2. *Export Promotion Development Programmes in Zambia – Zambia Development Agency* | 1. IGC Researchers: Neil Rankin and Joseph Simumba<br>2. Zambia Development Agency: Export |
| 12:00 – 12:30 | Open Stakeholder Discussions | All Participants |
| 12:30 – 13:00 | Closing remarks | 1. International Growth Centre (IGC)<br>2. Zambia Development Agency (ZDA) |
| **13:00 – 14:00** | **LUNCH AND END OF OFFICIAL PROGRAMME** | **ALL PARTICIPANTS** |