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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANISATION

REPORT ON UNIDO ENTERPRISE-TO-ENTERPRISE INTERNATIONAL

CO-OPERATION SURVEY - JUNE, 1989.

ZAMBIA

DRAFT

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ABBREVIATIONS

1.	ANC	African National Congress
2.	BOZ	Bank of Zambia
3.	CC	Central Committee
4.	ETC	Economic and Technical Cooperation
5.	FEMAC	Foreign Exchange Market
6.	FNDP	Fourth National Development Plan
7.	GRZ	Government of the Republic of Zambia
8.	IATTA	International Air Traffic and Transport Assocition
9.	IMF	International Monetary Fund
10.	INDP	Interim National Development Plan
11.	JPC	Joint Permanent Commission
12.	MaER	Matero Economic Reforms
13.	MCC	Member of the Central Committee
14.	MER	Mulungushi Economic Reforms
15.	NERP	New Economic Recovery Programme
16.	PIC	Prices and Incomes Commission
17.	PTA	Preferential Trade Area
18.	SADCC	Southern African Development Coordination Conference
19.	NCDP	National Commission for Development Planning
20.	SIDO	Small Scale Industries Development Organisation
21.	TNDP	Third National Development Plan
22.	UNIDO	United Nations Industrial Development Organisation
23.	UNIP	United National Independence Party
24.	UP	United Party
25.	UPP	United Progressive Party
26.	US $	United States Dollar
27.	ZA	Zambia Airways
28.	ZAB	Zambia Bureau of Standards
29.	ZCCM	Zambia Consolidated Copper Mines
30.	ZIMOIL	Zambia Industrial and Oil Company Limited
31.	ZIMCOM	Zambian Industrial and Commercial Association
32.	ZK	Zambian Kwacha

*EXCHANGE RATE

At the time of compiling this report the exchange rate of the Kwacha to the United States Dollar was as follows: ZK16.0779 = US $1

PREFACE

This project report is a consequence of UNIDO's current efforts aimed at initiating and encouraging international industrial co-operation at enterprise-to-enterprise level. Obviously it is a radical but welcome departure from traditional international industrial cooperation which is normally chanelled through governments either on bilateral or multilateral basis. The rapidity which should ideally characterise resource flows arising from the new UNIDO initiative should extremely be instrumental in ensuring timely economic recovery in beneficiary Third World countries like Zambia.

The report is divided in five chapters. The first chapter outlines the country's political structure and organisation. This is necessary because any international technincal and industrial assistance flows have to be contextualized within the recipient country's political and ideological framework. Like in any country, economic policy generation, promulgation and execution are greatly reflective of the existing political and ideological thinking of GRZ. Consequently, lack of appreciation of the same may turn out to be detrimental to the smooth administration of foreign assistance. Chapter two on the other hand, gives a resume and analysis of the country's past and contemporary economic policies.

[illegible] The resume summarises the otherwise long history of economic policy derivation in Zambia. In a nutshell, the conclusion is that from an initial emphasis on the public sector, the Government of the republic of Zambia (GRZ) now places continuing stress on the importance of according the public and private sectors due attention as partners in the country's socio-economic development process. The third chapter proffers the existing institutional setting for international industrial and technical cooperation.

What comes out from the chapter is that GRZ has managed to streamline and centralise the solicitation and dispensation of foreign technical and industrial assistance in the Ministry of Finance and National Commisssion for Development Planning (NCDP)

At the non-governmental level, however, the Zambian Industrial and Commercial Association (ZINCOM), whic is the national umbrellla for Chambers of Commerce and Industry and Traders Associations is increasingly complimenting GRZ efforts in initiating international resource in-flows.

Lastly, chapter four deals with the write-ups on the enterprises which were sampled for the project. As will be seen from the same, the enterprises included in the study are among the most promising and which stand well placed to benefit from international financial and capital flows. The project report ends with a conclusion.

CHAPTER ONE

1.0 POLITICAL STRUCTURE AND ORGANISATION

1.1 Upon the attainment of political independence from Britain on October 24, 1964, UNIP emerged as the dominant political party and formed the first indigenous Government in a tenuous coalition with the ANC. Nevertheless, between 1964 and 1971, the country saw the emergence of a number of other political parties principal among which were the UP and the UPP. In all cases, however, the parties were shortlived.

1.2 On December 13, 1972, the relatively strong ANC acceded to the demands for rapprochement with UNIP in the interest of national unity which has seriously been called into question hitherto due to politically motivated conflicts and squabbles. The historic reconciliation, popularly known as the Choma Declaration, ushered in Zambia's Second Republic under the One Party Democracy.

1.3 As the sole political party in the country, UNIP is responsible for the generation of policies to guide the country's economic, political and social development. This is based on the prescriptions of the party's constitution which states in article 7 that:-

> The Party is the Supreme Organisation and Guiding Political Force in the Land. Its main task and objectives..... shall provide guidelines for all persons and institutions in the Republic.

and in article 8 that:-

> It is hereby declared that no Act of Parliament, regulation, rule, or by-law shall be enacted or passed by any state organ, which is in conflict or inconsistent with this constitution or the national policies of the Party.

1.4 In effect, then, UNIP is supreme over all other institutions in Zambia. It fulfils its policies and guidelines formulation mandate through an elaborate structure which stretches from the section in a residential area at the lowest scale to the quinquennial Party Congress.

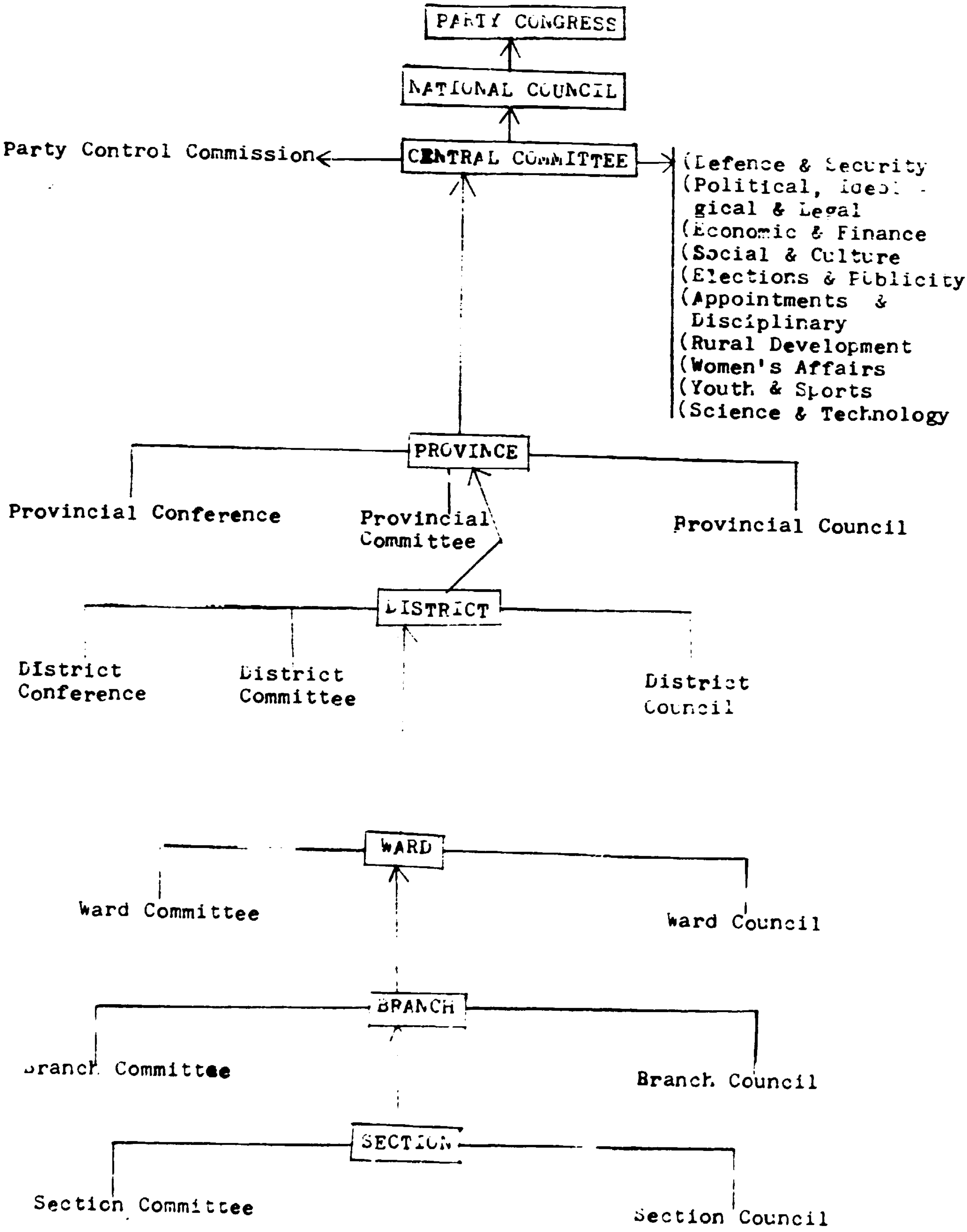
1.5 The Annual Party National Council formulates policies and guidelines during the five-year intervals of the Party Congress. The Central Committee, on the other hand, sees to it that the policies and guidelines thus stipulated are implemented by executing ministries, departments, and agencies. The Central Committee effects this mandate through its various standing Committees.
The Central Committee consists of 68 members, 23 of whom are full time while the rest are part time. Of the 23 full time members of the Central Committee 10 are Chairmen of the Sub-Committees and Party Control Commission indicated at appendixI - and 9 head provinces as Provincial Members of the Central Committee. The shortfall is made up by the President of the Party and the Republic of Zambia, the Secretary-General of the Party, the Prime Minister, and the Secretary of State for Defence and Security.

1.6 Forty (40) of the Members of the Central Committee are elected at the quinquennial party congress while the President appoints 27 from among Cabinet Ministers and notable personalities in the country.

1.7 The policy execution arm of Zambia's Political Structure is made up of Government Ministries, their Departments and Agencies. The ministries fall under the Cabinet Office which is administratively headed by the Secretary to the Cabinet who is responsible to the Prime Minister as head of the Government. The Central Committee and Cabinet meet jointly from time to time as a means of intergrating policy surveillance and execution.

3/...

UNIP STRUCTURE



SUB-COMMITTEES OF THE CENTRAL COMMITTEE

1. Defence and Security Sub-Committee
2. Political, Ideological and Legal Su-Committee
3. Economic and Finance Sub-Committee
4. Social and Culture Sub-Committee
5. Elections and Publicity Sub-Committee
6. Appointments and Disciplinary Sub-Committee
7. Rural Development Sub-Committee
8. Women's Affairs Sub-Committee
9. Youth and Sports Sub-Committee
10. Science and Technology Sub-Committee

CHAPTER TWO

2.0 **ECONOMIC POLICY BACKGROUND AND ANALYSIS**

2.1 The complexion of Zambia's Economic Policies have greatly been (and continues to be) conditioned by the country's colonial legacy on one hand, and the ideological and philosophical posture of UNIP against the same on the other.

2.2 Upon the attainment of political independence in 1964, the economic ownership pattern was such that all the strategic enterprises, including the copper mines, were owned and controlled by foreign interests. Mindful of its slender hold over the commanding heights of the economy, the Government used the first few years to study the situation with a view to coming up with a package of suitable policies to indigenise the economy. The indigenisation of the economy was UNIP's long term programme even well before the attainment of political independence. In its 1962 Independence Manifesto, for instance, UNIP had committed itself (though cautiously) to this objective.

2.3 The concretisation of post-independence economic policies came with the Mulungushi Economic Reforms (MaER) of 1968 under which the State took controlling shareholdings in 25 major enterprises in all sectors of the economy. The Nationalisation was heralded by the promulgation of the philosophy of Humanism in 1967 whose theme was the eventual socialisation of the economy. Consequently, there emerged a kind of mixed economic structure in which the private sector continued to exist alongside the parastatal sectors. The Mining Industry was drawn into the web of nationalisation by the Matero Economic Reforms (MaER) of 1969. Under the Reforms the Government acquired 51% shareholding in the mining companies

2.4 The Government executed the foregoing takeovers through its newly formed holding company, the Industrial Development Corporation (INDECO). The nationalisation of the mines in 1969 issued into the formation of the Zambia Industrial and Mining Corporation (ZIMCO) which in turn became the holding company for INDECO.

2.5 Since the Mulungushi and Matero Economic Reforms, Party and Government Economic Policies had for a long time tended towards the expansion of the parastatal sector as had been evidenced by the disproportionate support for the public sector on one hand, and the lack of ostensible institutional support for the private sector up until the dawn of the 1980s. The underlying desire of Government had been to deliberately build the parastatal sector into a leading instrument for industrialisation and equitable distribution of wealth and resources in the country.

2.6 The International Oil Shock of 1973 and the collapse of Copper prices in 1974 due to sweeping recession in major industrial countries tragically shook the foundations of the parastatal edifice and for the first time brought its economic leadership role into question. The effects were particularly devastating because of the economy's heavy dependence on the mining industry as the principal foreign exchange earner (92 per cent on average) the traditional reliance on industrial countries for the procurement of capital goods, spare parts and critical raw materials and ultimately the capital intensive nature of the parastatal sector. Consequently, the NCDP lamented in its 1986 review of the economy that:-

> The Zambian Economy has suffered a prolonged state of contraction since 1975. The economic reliance on a single commodity, copper, for its export earnings and on an industrial sector heavily dependent on imported inputs, has made the country highly vulnerable to a combination of deteriorating export

prices (especially of minerals) increasing costs of imported raw materials... lack of budgetary funds and foreign exchange has impaired the maintenance and effective utilisation of the exsting infrastructure developed after independence and has led to the deterioration of social services in the health, education and agricultural sectors. (NCDP JANUARY, 1986:8).

2.7 The following table depicts the effects of the contraction on copper production, revenue and its contribution to Government budgets between 1970 and 1983.

TABLE ONE

COPPER EARNINGS AND CONTRIBUTION TO GOVERNMENT REVENUE 1970-83*

YEAR	COPPER EARNINGS (KN)	GOVT. REVENUE (KN)	SHARE OF COPPER (KN)	SHARE OF COPPER(%)
1970	648	432	251	58
1971	454	309	114	37
1972	479	315	54	18
1973	703	385	108	28
1974	847	647	337	52
1975	479	448	59	13
1976	705	443	12	3
1977	441	499	-	-
1978	434	550	-	-
1979	1,027	595	-	-
1980	940	768	42	5
1981	875	920	11	1
1982	981	840	-	-
1983	959	957	42	4

*Source : Central Statistical Office, Lusaka.

2.8 To manage the contraction, the Government entered into a balance of payments adjustment programme with the IMF in 1976 which issued into a 20% devaluation of the kwacha. Nevertheless, the measure did not immediately stimulate demand for the country's exports due to the persistence of the recession in major industrial consumer countries. This led to another devaluation of the kwacha in 1978 by another 10%. However, the exchange rate adjustment, almost coincided with the 1979/80 international oil price crisis which further worsened Zambia's external payments position as is evident from the table below.

TABLE TWO : ZAMBIA'S OIL IMPORTS AND NET EXPORTS 1974 -1983

A	B	C	D	E	F	G
YEAR	VOLUME (BARRELS)	VOLUME (METRIC TONNES).	VOLUME F.O.B (K'000)	CHANGE OVER PREVIOUS YEAR (K'000)	EXPORTS (K'000)	D AS PER-CENTAGE OF F
1974-75	6,197,577	807,930	46,204	-	905,091	5.1
1975-76	6,803,789	890,605	52,828	6,624	521,049	10.1
1976-77	6,628,665	868,578	68,800	15,850	751,850	9.2
1977-78	6,079,399	798,543	68,470	300	708,016	9.1
1978-79	5,748,309	755,020	67,971	499	586,808	9.9
1979-80	5,588,735	736,182	117,239	49,268	1,090,006	10.8
1980-81	5,680,282	750,[illegible]	167,202	49,967	1,023,276	16.3
1981-82	5,690,175	748,149	196,106	28,984	936,276	21.0
1982-83	4,648,446	608,225	205,365	9,259	950,456	21.6
1983-84	4,619,859	503,768	217,103	11,738	1,047,545	20.7

*SOURCE: COMPILED FROM THE ECONOMIC REPORT, NCDP 1983; 194.

2.9 Fortunately, the devaluation was assisted by the rises in copper prices by 44 per cent in 1979 and 9 per cent in 1980 to ameliorate the effects of the energy crisis which was, however, shortlived as the world entered another round of economic recession at the end of 1980. The net effect was drastically reduced copper earnings and consequently the depening of the structural problems of the various sectors in the economy. The inflationary effects triggered by the 1976 and 1978 devaluations only worked to push up the cost of imported raw materials, capital goods, tools and spares the resultant of which was an unbearably high cost of living for the ordinary citizen. The table below offers a glimpse of this trend.

TABLE THREE

DOMESTIC INFLATION MEASURES - COMPOSITE CONSUMER INDEX*
(1975 = 100)

YEAR	COMPOSITE CONSUMER INDEX	RATE OF INFLATION OVER PREVIOUS YEAR
1980	203.7	12
1981	232.1	14
1982	262.6	13
1983	306.9	19.4
1984	368.6	20.0
1985	504.7	37.0
1986	769.1	53.0
1987	1,110.4	45.0

1source; FNDP,NCDP JANUARY 1989;4

2.10 In the employment sectorthe contraction of economic activity in Zambia had the net effect of reducing formal employment from a high of 384,900 to a low of only 363,800 in 1983. The equivalent figure for 1988 was 351,395. While this was happening the population of the country continued to increase at an annual rate of 3.6 per cent which made the national population to swell to 7.6 million at the end of 1988.

2.11 In terms of international payments, economic contractions caused Zambia to accelerate its indebtedness to bilateral multilateral and private creditors. From only US$1.8 billion in foreign debt in 1980 Zambia had by the end of 1937 accrued US$6.0 billion in foreign debdt.

2.12 A combination of the above and other economic contraction related difficulties resulted in chronic underutilization of installed production capacities in all manufacturing industries across the board from as low as 19 per cent to 78 per cent among the most adversely affected and moderately affected enterprises, respectively.

2.13 In a bid to improve enterprise profitability the Government promulgated a price decontrol policy in December 1982. The decontrol, however, did not arrest the downward trend in enterprise utilization of installed capacity due to the high imported component of inputs. The decontrol only succeded in aggravating the cost of living as can be seen from table three. The other reason was that the decontrol came too late and in insufficient measure. The Government had rigidly stuck to the policy of price control and subsidisation as a double-edged tool against - and for affordable cost of living. The policy had not, however, equally placed alid over costs of local and imported inputs which meant that for along time enterprise product prices drastically fell below the unit cost of producing them.

2.14 Faced with such constraints, the Government put in place another set of economic policy measures in January 1983 with the assistance of the IMF and the World Bank. The measures, included, interalia, the further devaluation of the kwacha by 20 per cent. The results of the devaluation were unimpressive. In fact in 1984 aggregate GDP declined by a margin of 0.35 per cent while consumer price indeces for the low and high income groups incread by 20 per cent and 21 per cent, respectively.

2.15 In the face of sustained foreign exchange constraints despite the devaluations, whose principal objective had been to stimulate export earnings, the Government decided to libralise interest rates and the foreign exchange allocative mechanism. From October 5, 1985, a foreign exchange auctioning system was put in place. Under the system, foreign exchange was allocated beginning with the highest bidder until the available foreign exchange got exhausted. The system was later altered to ensure efficiency and accessibility. Of consequence, however, is the fact that the auction period saw a drastic devaluation of the kwacha from a bottom line of slightly over K2 to US$1 at the first auction in October 1985 to a staggering K21.01 as at April 1987.

2.16 Here again, the inability of the country to earn sufficient levels of foreign exchange attenuated the mechanisms impact on the economy. If anything, structural and Government budget difficulties persisted and in many cases worsened. In the face of mounting external payments arrears vis-a-vis constricted capital inflows, the country in 1986 recorded an overall balance of payments deficit of K2.1 billion (FNDP,NCDP JANUARY 1989:5). This was aside from downward trends in employment, economic and social services, 2.17 On May 1, 1989 His Excellency, the President Dr K D Kaunda at a Press Conference announced the dramatic abandonment of the IMF/WB Sponsored Structural Adjustment Programme which had been subsisting since 1983. In its place the President announced a new package dubbed the New Economic Recovery Programme (NERP) whose theme was "Growth From Own Resources". The argumentation basically was that the package of economic programmes which the Government had been putting in place with the assistance of foreign donors and resources, including the IMF and the World Bank, had not succeeded in increasing the in-flow of capital and financial resources relative to the country's external payment position and actual resource outflows.

2.18 Among other prescriptions the NERP entailed the :

(i) reactivation of the economy through dependence on local human, financial and natural resources;

(ii) reorienting consumption patterns from imports to domestically produced goods and services, and

(iii) designition of foreign exchange as a strategic resource and rationalisation of its use

In effecting the third objective, the NERP promulgated the limitation of foreign debt servicing to 10 per cent of net foreign exchange earnings i.e after deducting from gross earnings operational costs of ZCCM, ZA (IATTA Bills), ZIMOIL and Fertilizer Imports. Secondly, the foreign exchange allocative mechanism was fixed at K8 = US$1. Finally, interest rates were fixed between 15 and 20 per cent.

2.19 The NERP was finally effected in the Interim National Development Plan (INDP, JULY, 1987 - DECEMBER 1988). The INDP was basically intended to prepare the ground for the subsequent reinstitution of rational economic planning which had been disrupted when the Third National Development Plan (TNDP 1980 -1984) was overtaken by the implementation of the IMF/WB Structural Adjustment Programme in 1983. The results of the INDP were mixed as some sectors (mining, agriculture, real estate, manufacturing) marginally improved while others (construction, transport and communications and wholesale and retail trade) actually recorded declines.

2.20 Faced with persistent sluggish growth rates in the economy, the Government turned full circle from the policy of price controls on June 30, 1989. In a nation wide radio and television broadcast His Excellency, the President, Dr K D Kaunda, announced the lifting of price controls on commodities across the board with the exception of mealie-meal. He also announced the devaluation of the kwacha from K10 to one US Dollar to K16 to one US Dollar. Again the rationale was the need to dynamise industrial production levels and to maximise export earnings and especially the profitability of ZCCM. These two principal measures are part and parcel of the provisions of the Fourth National Development Plan (FNDP 1989 -1993) which, at the time of compiling this report, is only six months old.

2.21 From the foregoing, it may be evident that the Government macro-economic policy framework had for a long time centered on the envisiond creation of a viable parastatal sector which would then act as the leader of and engine for socio-economic growth. The economic crises of the mid 1970s and early 1980s, however, had attenuated the capacity of the parastatal bodies to realise this objective. Consequently, increasing attention has been given to the private sector as an important partner in the process of the country's development.

2.22 This new attitude was clearly manifest at the beginning of the 1980s when the Government began to put in place policies designed to stimulate and dynamise the private sector. The 1981 Small Scale Industries Development Organisation (SIDO) Act whose objective is to promote private sector initiatives and the 1986 Investment Act, are a few cases in point in the changed institutional perception of the private sector.

2.23 Consequently, the Government has for the first time since independence included private sector projects in the National Development Plan. The FNDP has committed a whole chapter to the private sector which also includes 105 major projects spread over nearly all sectors. Equally important is the fact that the private sector is now regularly consulted on major socio-economic policy issues and is represented on national economic commissions and committees. The new favourable institutional approach to the private sector is a radical departure from the tolerance of the sector which characterised the early years of political independence.

2.24 Viewed within the context of the new UNIDO enterprise-to enterprise industrial cooperation initiative, one may see that the Government is seriously committed to the creation of an enabling environment in which the private sector will benefit both from official and private external assistance. In such an environment, it is envisaged that the new initiative will issue into prompt and efficient regulation and delivery of external assistance to individual enterprises which may not have been possible due to the long and audious negotiation process which now characterises external assistance chanelled through

Government bureaucracies. The other advantage is that even small amounts of industrial or technical assistance can be chanelled to an enterprise unlike huge official assistance programmes which need processing through the Government.

CHAPTER THREE

3.0 INSTITUTIONAL SETTING FOR INDUSTRIAL AND TECHNICAL COOPERATION

3.1 The solicitation and negotiation for and disbursement of external assistance is vested in the Ministry of Finance and National Commission for Development Planning (NCDP). The solicitation and negotiation functions are exclusively the mandate of the NCDP. The disbursement is executed by the Ministry through its loans and investments section which in addition performs the accounting role.

3.2 Other equally important institutions are the Ministry of Foreign Affairs and the Ministry of Commerce and Industry in as far as the authentification of technical assistance (eg. personnel status) and issuance of work permits are concerned, respectively. The Bank of Zambia (BOZ) , which falls under the Ministry of Finance and NCDP is also - heavily involved in external assistance programmes in as far as monetary exchange facilitation is concerned.

3.3 The foregoing institutional arrangement has so far worked quite well in the sense that the Government now is able to keep track of capital and financial in-flows.

3.4 At the non-governmental level, ZINCOM has gained tremendous prominence as a conduit for business and investment promotion. As the umbrella for eight town and district chambers of commerce and industry and a host of traders associations, ZINCOM has achieved a large measure of success in promoting enterprise-to-enterprise industrial and technical cooperation. For example, in March of this year ZINCOM played host to a group of Japanese Businessmen and Women who had come on a business and investment sounding tour to zambia.

In June, 1989, the Japanese trade Mission was reciprocated by an Outward Trade Mission by a group of Zambian Businessmen who went to Japan under the leadership of ZINCOM. Another Zambian Trade Mission facilitated by ZINCOM this year was to Portugal, Cuba and the USA. All the Zambian Missions in which the UNDP has actively been involved were extremely successful.

The prominence of ZINCOM is also manifest in its election to sit on the following Government economic institutions:

(i) Foreign Exchange Managemnt Committee (FEMAC);

(ii) Prices and Incomes Commission (PIC);

(iii) Small Scale Industries Development Organisation (SIDO);

(iv) Zambia Bureau of Standards (ZBS);

(v) Zambia International Trade Fair (ZITF); and

(vi) all Joint-Permanent Commissions (JPC) with other countries.

3.6 The increasing role of ZINCOM is explained by the Government's accommodating approach to the private sector as a whole. ZINCOM is thus a filter for policy, information from the Government to the private business community on one hand and for reactions and recommendations from the private sector to the Government on the other. Because of its long history of private business coordination, ZINCOM is playing this role quite well.

CHAPTER FOUR

4.0 ENTERPRISE IDENTIFICATION

4.1 INTRODUCTION

The choice of enterprises for the study was deliberately done as per the project aide memoire.

To start with three priority sub-sectors were identified in light of the country's macro-economic policy of dynamising the agricultural and manufacturing sectors. The sub-sectors identified were crop production and food processing, textiles and footwear, and engineering. Subsequently, specific enterprises were sampled as follows:

A. Crop Production and Food Processing

(i) Lilyvale Farms Limited
(ii) Speciality Foods (Zambia)Limited

B. TEXTILES AND FOOTWEAR

(i) Vimal Textiles Limited
(ii) Kamra Limited

C ENGINEERING

M D M Engineering Contractors Limited.

4.2 RATIONALE FOR CHOICE OF SUB-SECTORS

4.2.1 As already noted in the introduction to this chapter, the choice of sub-sectors was done against the background of the GRZ's new emphasis on its perceived leading economic sectors in the economy in view of the diminishing foreign exchange returns from the copper mining industry.

4.2.2 In this regard the agricultural sector and its sub-sectors have been prioritised as the most viable alternative to the copper mining industry. Indeed, GRZenvisages that the agricultural sector, given appropriate and adequate resources, can in no time at all become the base for the development of non-copper (non-traditional) exports. The sector has almost limitless potential. This is especially true when one considers the fact that Zambia has a total of 42 million hectares of arable land out of which only 2.5 million are currently under cultivation. This leaves 94 per cent of untapped arable land. Consequently, the agricultural sector only contributes 15 per cent and 10 per cent to GDP and formal sector employment, respectively. The tapping of the agricultural potential that exists is also equally important in reversing the rural-urban drift that has characterised Zambia since the attainment of political independence in 1964.

4.2.3 The two enterprises which had been chosen in this regard Lilyvale Farms Limited and Speciality Foods (Zambia) Limited are among a score of extremely promising agro-based economic ventures in the country.

4.2.4 On the other hand, the manufacturing sector was included in the study because of its observed contributions to the economy both in employment creation and GDP. On average the manufacturing sector contributes 21 per cent to GDP and 14 per cent to employment. This makes it third most important sector after agriculuture and mining in terms of sectoral contributions to aggregate GDP.

However, the sector has tremendous potential to dynamise and maximise its net output especially in the field of consumer goods.

4.2.5 Presently, the under utilisation of installed capacities referred to earlier in Chapter Two which has been crystallised by the lack of adequate foreign exchange resources to service existing machinery and to install new capacities had led to generalised shortages of essential goods and services in the country. It has equally issued into the reduction of formal employment levels and thus aggravating the unemployment problem now calculated at 17 per cent of the total labour force.

4.2.6 It is against this background that GRZ continues to renew its emphasis on the manufacturing sector. In the same vein this study isolated the sector as being among the most promising potential beneficiaries of UNIDO's new international enterprise -to-enterprise industrial cooperation programme. The textile and footwear subsector was sampled in this regard. Vimal Textiles Limited and Kamra Limited

4.2.7 Specifically, Vimal Textiles Limited was included in the study because of its engagement in the production of canvas and tarpaulins which are mainly used to cover agricultural produce (especially grains). The enterprise has managed to gain prominence and institutional recognition because of its forward linkage to the agricultural sector.

4.2.8 On the other hand, Kamra Limited is an emergent enterprise which deals in the manufacture of leather footwear. In just over one year of operation, Kamra Limited has acquired local and international reputation despite its small size. It produces extremely good quality leather footwear which it sells locally and exports to countries in the subregion. It is envisaged that international enterprise-to enterprise industrial cooperation can assist to

2.2.9 Lastly, the engineering sector was also included in the sample mainly because of its linkages to all the sectors in terms of industrial input support. In an industrialising country like Zambia the establishment of a viable and sustainable engineering capacity can hardly be over~~e~~mphasised, In the Zambian case the engineering capacity that had existed until of late had turned on or related only to the copper mining industry. However, with the Government's policy of diversifying the economy into other sectors, the country has in the last ten or so years seen a rapid emergence of engineering enterprises which now administer to industrial needs totally unrelated to the copper mining industry. In this respect, MDM Engineering Company Limited is among the few concerns which have acquired local and international repute in the field of designing and manufactruing agricultural and industrial tools and components. As will be shown in the outline the enterprise's product range is very crucial to the country's agricultural sector.

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TELEX: ZA81050

5.1 PROFILE

5.1.1 Lilyvale Farms Limited was established in 1975 with a paid up share capital of K500,000.00. It is a totally Zambian owned enterprise and is strategically located in the Central Province of Zambia about 22 kilometers from Kabwe, the proviccial capital. In all it has 4,048.6 hectares of excellent soils which are suitable for cultivation of a range of crops. Apart from one large dam, the farm has several boreholes which yield abndunt water for both domestic and commercial uses. It is also endowed with rich and extensive deposits of dolomitic limestone whose chemical analysis has been proved excellent for both agriculture and industrial uses. Other infrastructure include 8 senior staff houses, 45 workers' houses, a ware house, drying sheds, workshop and lime flour processing plant. It has a total of 266 employees.

5.1.2 Currently, the farm has 1619.4 hectares of cleared land which is yielding various crops including maize, seed maize, soyabeans, cotton and vegetables. On the other hand, the farm is mining limestone which it crushes and processes into lime flour for both agricultural and industrial uses. Its clients for lime flour include ZCCM, Kabwe Division, Kapiri Glass Products Limited, Milling Companies (for stockfeed production), major commercial farms, and a host of industries in Zimbabwe and Malawi. Its capacity to satisfy local and international demand is, however, limited by the lack of adequate and appropriate plant machinery for mining, crushing and processing, skilled manpower, and foreign exc hange constraints.

5.2 **PRODUCT RANGE**

5.2.1 As noted above, the farm has two production lines, i e crops and industrial and agricultiral lime flour.

The raw materials for the production of lime flour are sourced locally. Limestone which is the main ingredient is mined on the farm itself. The market for lime flour in the country is limitless. This is especially in light of the country's enhanced emphasis on agricuture as the eventual base of the economy. Secondly, lime flour is in high demand due to the nature of soils in Zambia most of which are subejct to leaching . On the other hand, the demand for lime flour is increasing in the production of stockfeeds by milling companies. And, of course, this is aside from other equally pressing demands in a range of industrial production processes in the country.

5.2.2 Presently, Lilyvale farms Limited is only meeting a small portion of the available demand. Consequently, with the availability of adequate machinery, crushers, spareparts, etc and skilled management, the enterprise within no time at all, can become an extremely viable venture. This is the more so considering the scanty and tenuous competition that is offered by only two companies in the coutry (Ndola Lime Company Limited and Crushed Stones Sales Limited) let alone the expanding market offered by the Southern African Development Coordination Conference (SADCC) and the Preferential Trade Area (PTA).

5.2.3 It is important to note, however, that Lilyvale Farms Limited may only rise to this challenge if (and only if) it manages to acquire the necessary limestone mining and crusing equipment that it so desperately requires. Currently, the enterprise is using very simple local technology to mine and crush limestone. Noting the non-availability of suitable mining and crushing machinery and spareparts locally, the foreign component is vitally necessary to dynamise the operations of the enterprise under review. Viewed against the backdrop of the generalised foreign exchange constraint which was alluded to in Chapter Two there is an urgent need for external assistance both in terms of machinery and foreign exchange funding.

5.2.4 The other line of production (crops) is just as profitable when seen in light of the country's stress on food self-sufficiency. In this respect, it is important to note that Zambia is still in the initiation stage in as far as commercial food production is concerned. Consequently, the nation from time to time imports food, especially wheat. With so much arable land and plentiful water resources, Lilyvale Farms Limited can tremendously assist to bridge the gap that now exists between food supply and demand. In this regard, the enterprise plans to expand and diversify its agricultural production activities to include wheat and other exotic crops. Future plans also include diversification into silk production (sericulture). Again the market potential for silk and silk products is vast. Traditionally, Zambia's textile industry has concentrated on cotton fabric and cotton related materials and nylon products. All silk garments are imported. Consequently, the establishment of a silk production line by Lilyvale Farms Limited could be a serious contribution to the country's textile industry.

5.2.5 Lilyvale Farms Limited is desirous of a partnership with any willing foreign enterprise. It is ready to offer tremendous production capacities both in line mining and crushing limestone flour production and agricultural production.

The partnership or International Industrial Cooperation that is being sought include management, joint ventures, expansion of capacity, rehabilitation of existing machinery, modernisation of production lines, new technology, training and joint marketing.

5.3. **COMMENTS**

5.3.1 The Management of Lilyvale Farms Limited are totally committed to cooperate with any willing and viable foreign enterprise both in the mining of limestone and production of agricultural and industrial lime flour, on one hand, and in the production of a wide range of agricultural crops on the other.

5.3.2 The attraction of the enterprise is that it can easily be turned into a vertically integrated agro-based economic venture. The mining of lime and processing of the same into agricultural and industrial lime flour could issue into the reduction of production costs vis-a-vis high returns. The multifaceted uses of lime flour is an added advantage in the sense that the enterprise can readily diversify into other production lines like stockfeed production, poultry processings etc. . Equally important is the extent of the farm land (4048.6 hectares), which is vast enough to be converted to other agricultural and industrial uses.

5.3.3 Having looked at the Farm's financial operations and management I am confident that the enterprise is viable and consequently can put to good use any international industrial cooperation resosurces which a willing foreign partner may wish to offer. I have appended hereto the enterprise's Balance Sheet and Profit and Loss Account as at September 30, 1988 together with its management structure for the purposes of affording a bird's eye view of financial operations and management organisation.

26/...

APPENDIX ONE

LILYVALE FARMS LIMITED BALANCE SHEET AS AT 30TH SEPTEMBER, 1988.

FIXED ASSETS	2,225,620.35
CURRENT ASSETS	
Stock	760,075.40
Debtors, Deposits & Prepayments	638,524.47
Due from Associated Companies	345,702.14
Cash and Bank Balance	1,300.00
	1,745,602.01
CURRENT LIABILITIES	
Creditors & Accruals	1,300,357.04
Due to Associated Companies	758,070.43
Bank Overdraft	585,967.98
	2,644,395.45
NET CURRENT LIABILITIES	898,793.44
NET ASSETS	1,326,826.91
REPRESENTED BY	
SHARE CAPITAL	500,000.00
RESERVE & SURPLUS	(232,391.02
LOANS	1,059,217.933
	1,326,826.91

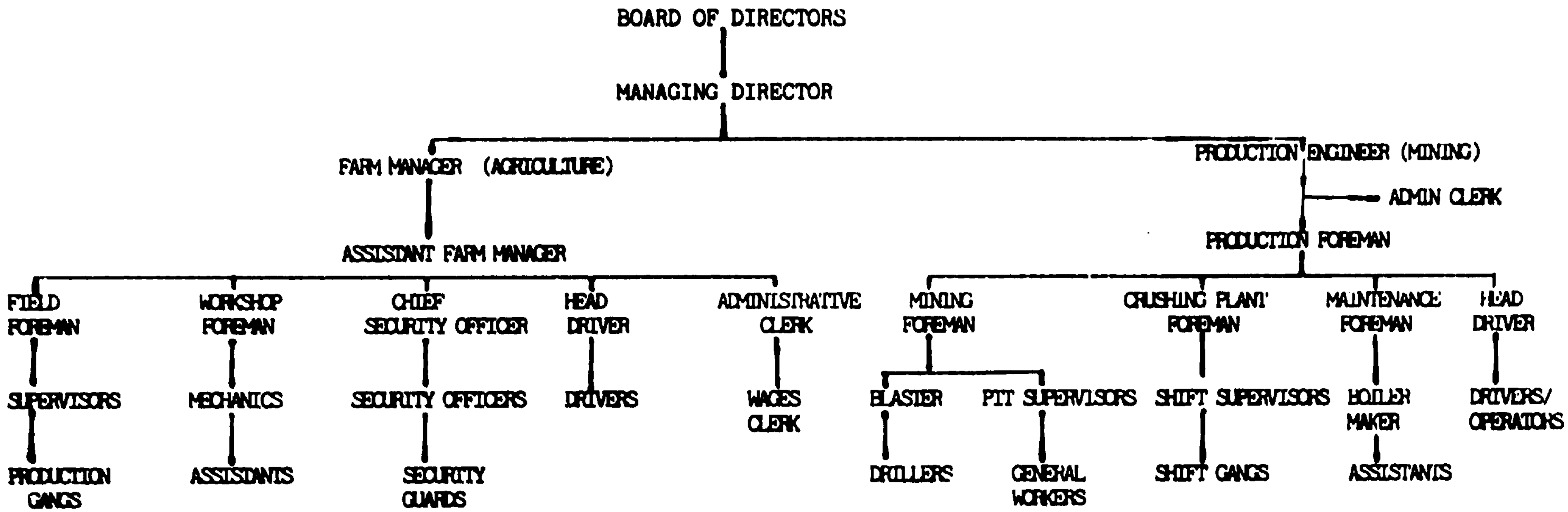
APPENDIX TWO

LILYVALE FARMS LIMITED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 30 SEPTEMBER, 1988

Turn Over	3,985,889.51
Less:	
Farming Expenses	3,726,143.00
Profit before Tax	259,746.51
Less: Provision for Taxation	259,746.51
Profit After Tax	(492,137.53)
Less: Loss B/Forward	(232,391.02

APPENDIX THREE

ORGANISATIONAL STRUCTURE OF LILYVALE FARMS LTD



6.0 SPECIALITY FOODS (ZAMBIA) LIMITED

P.O BOX 22421 KITWE ZAMBIA
TELEPHONE: 214655 TELEX SPECFD ZA51980

6.1 PROFILE

Speciality Foods (Zambia) Limited is a wholly Zambian owned enterprise. It was incorporated in 1966 with an initial capital of K800,000.00. It is based in Kitwe on the Copperbelt and currently employs 154 workers. It has two large factories and three built up residential plots in the same city. The nature and valuation of the company's assets structure is as follow:-

FIXED ASSETS

	Long leasehold properties	Plant & Machinery	Motor Vehicles	Furniture & fittings	capital work in Progress	total
COST						
At beginning of year	2,815,168	2,084,469	1,042,501	77,905	,-	6,020,043
Additions at cost	-	731,844	1,079,950	89,309	926,746	2,827,849
Revaluation	5,896,167	-	-	-	-	5,896,167
Disposals	-	-	(71,500)	-	-	(71,500)
At end of year	8,711,335	2,816,313	2,050,951	167,214	926,746	14,672,559
Cost or valuation at 30 September 1988 is represented by:						
COST	157,335	1,260,711	1,904,951	167,214	926,746	4,416,957
valuation 1984	-	1,555,602	146,000	-	-	1,701,602
1986	194,000	-	-	-	-	194,000
1988	8,360,000	-	-	-	-	8,360,000
	8,711,335	2,816,313	2,050,951	167,214	926,746	14,672,559
Depreciation						
At beginning of year	45,274	620,310	348,532	11,868	-	1,025,984
Charged during the year	56,304	529,344	527,738	25,082	-	1,138,468
Eliminated in respect of disposals	-	-	(13,407)	-	-	(13,407)
Eliminated on Revaluation	(90,068)	-	-	-	-	(90,068)
At end of year	11,510	1,149,654	862,863	36,950	-	2,060,977
Net Book value At end of year	8,699,825	1,666,659	1,188,088	130,264	926,746	12,611,582

The net book value of leased assets amounted to K 423,430.

With the exception of the leasehold properties, furniture and fittings and certain items of plant and machinery, the company's fixed assets were revalued at 30 September 1984 by professional firms of valuers and industry experts on a depreciated replacement cost basis.

The revaluation of the company's long leasehold properties was carried out at 30 September 1986 by recognised firms of valuers on an open market value basis for existing use.

6.2 The company's main line of operations is food processing and packaging. It produces various brands of high quality confectionaries; baby porridge powders, sweets, beverages, snacks and peanuts, to name but a few. The fullproduct ragne is as follows;

PRODUCT RANGE

SNACK

CRISPS

POP IT YOURSELF

SUGARED POPCORN

CORN PUFFS

NIBBLE STIX

PEANUTS

PEANUTS

PEANUT BUTTER

POWDERS

JELLIES

BAKING POWDER

CUSTARD POWDER

CORNFLOUR

BICARBONATE OF SODA

CASTOR SUGAR

ICING SUGAR

VINEGAR

HONEY

HARRICOT BEANS

MILK SHAKE

BABY PORRIDGE

BEVERAGES

TEATIME TEA

JACARANDA

WILSONS (CONFECTIONERY)

WILSON ROLLS

WILSON SUCKERS

BUBBLE GUM

TOFFEE

FRUIT BON BONS

6.3 RAW MATERIALS

6.3.1 Most of the basic raw materials for the production of food fproducts given in the schedule are sourced locally. These include groundnuts, soya beans, sweet beans, bee honey, tea leaves, and corn. However, the enterprise imports certain raw materials which are not locally available, or if they are, are in insufficient quantities. The schedule below gives what the enterprise imports in terms of raw materials together with how much foreign exchange is spent on the same.

IMPORTS OF RAW MATERIALS

CCCN	COMMODITY	SOURCE	ANNUAL FOREX REQUIREMENTS
170290	LIQUID GLUCOSE	RSA/EUROPE	US$ 250,000.00
110800	MAIZE STARCH	"	240,000.00
330410	FOOD FLAVOURS	"	85,000.00
480724	PACKAGING	ZIMBABWE/EUROPE	25,000.00
390500	GUM BASE	SPAIN	85,000.00
040220	DRIED SKIM MILK	RSA/EUROPE	230,000.00
291611	CITRIC ACID	"	6,000.00
291411	ACETIC ACID	"	8,000.00
180510	COCOA POWDER	EUROPE	70,000.00
284011	ACID SODIUM PYROPHOSPHATE	"	45,000.00
284211	SODIUM BICARBONATE SODA	"	11,000.00
350311	GELATINE	RSA/EUROPE	10,000.00
			US$ 1,065,000.00

6.3.2 Because of the huge amounts of foreign exchange that the enterprise spends on the importation of raw materials, plans are under way to find alternative local sources. In this regard, the enterprise would like to start producting some of the raw materials it is importing now. These include glucose, corn starch and skimmed milk. The constraint so far has been the lack of a suitable foreign partner to assist with the execution of the plan. Specifically, the enterprise continues to lack the foreign component of the project, especially foreign exchange to purchase machinery and equipment.

6.3.3 It is against this background that Speciality Foods (Z) Limited would like to enter into a joint venture or partnership with a foreign enterprise which will consequently help with the installation of new technology, expansion of capacity, rehabilitation of existing machinery and manpower training.

6.3.4 On its part, Speciality Foods (Z) Limited is ready to provide counterpart financing, Currently, the enterprise has a base of qualified technical personnel who are capable of easily adopting new technology and modern management skills.

6.3.5 In terms of future plans, Specility Foods (Z) Limited wishes to diversify into the production of various types of biscuits, cookies, chocolates, ice creams, breakfast cereals, jams, and marmalades.

6.3.6 Speciality Foods (Z) Limited presently mainly competes with Lyons Brooke Bond (Z) Limited, Copper Harvest (Z) Limited, Sunrise Biscuits (Z) Limited, Kawambwa Tea Company Limited, and Breakfast Foods (Z) Limited, Nevertheless, despite this competition the enterprise faces no difficulties in selling its products. Its annual turnover is in the neighbourhood of K54 million. This is expected to drastically increase in the face of the new GRZ policy of price decontrols and devaluation of the Kwacha.

The Profit and Loss Account for the year ended September 30, 1988, the Balance Sheet for the same period and Management Structure of the enterprise are appended hereto as indeces of financial operations and management organisation.

APPENDIX ONE

SPECIALITY FOODS (ZAMBIA) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1988

	NOTES	Year ended 30.9.88	6 months to 30.9.87
Turnover		K29,885,847	K 9,116,760
Profit before taxation	2	K1,843,435	K 416,494
Taxation	3	(893,281)	(254,602)
Profit after taxation		950,154	161,892
Proposed dividend		600,000	-
Retained profit for the period	11	K 350,154	K 161,892

APPENDIX TWO

SPECIALITY FOODS (ZAMBIA) LIMITED

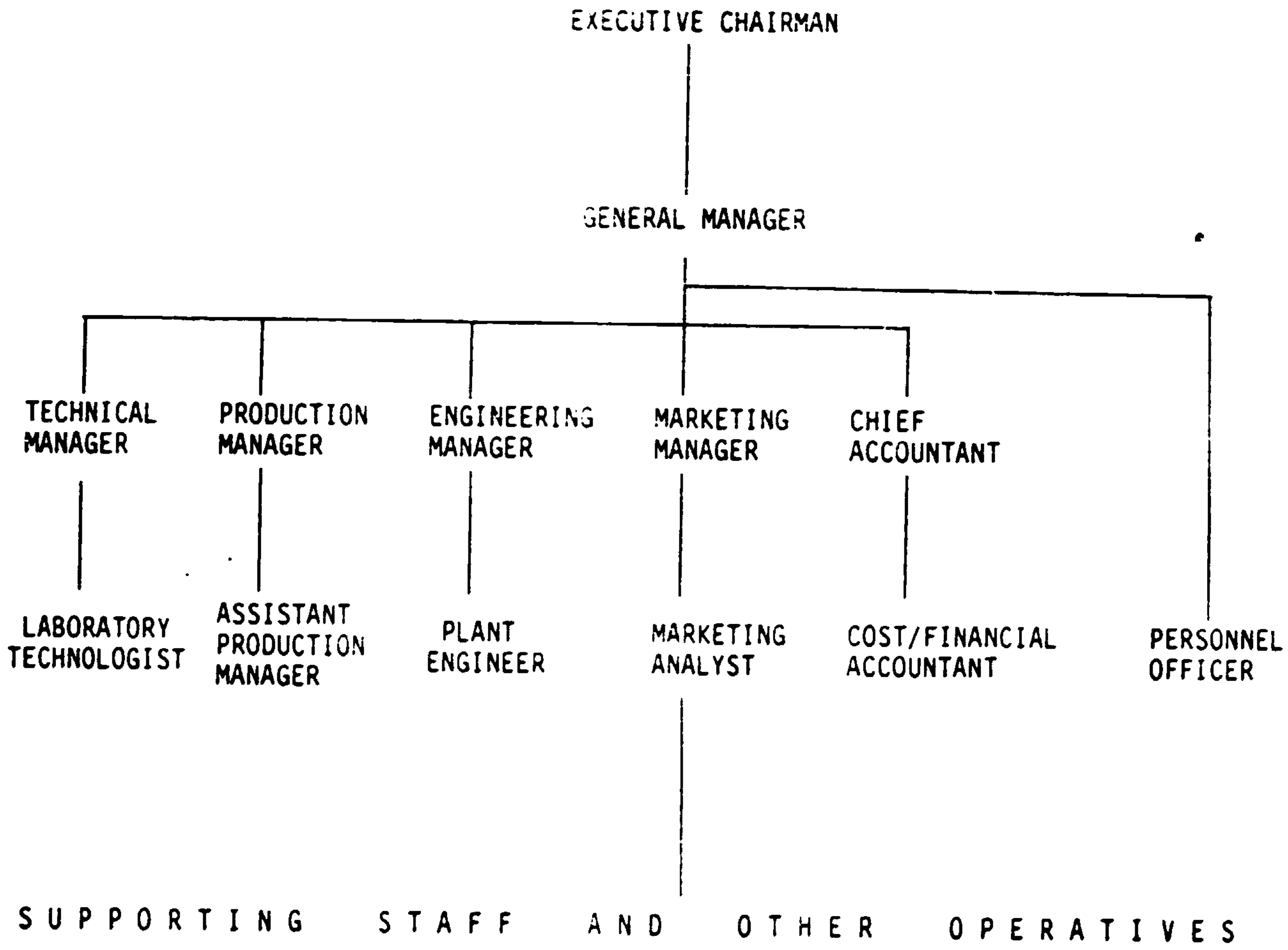
BALANCE SHEET AT 30 SEPTEMBER 1988

	30.9.88	30.9.87
FIXED ASSETS	K12,611,582	K4,994,059
CURRENT ASSETS		
Stocks	6,150,782	3,227,807
Debtors	6,718,917	5,716,546
Cash	2,164,537	10,317
	15,034,236	8,954,670
CURRENT LIABILITIES		
Creditors	10,126,492	5,739,192
Dividend proposed	600,000	-
Taxation	914,998	397,317
Bank overdraft	2,658,748	1,059,634
	14,300,238	7,196,143
NET CURRENT ASSETS	733,998	1,758,527
	K13,345,580	K6,752,586
Financed by:		
Share capital	K 800,000	K 800,000
Reserves	12,288,975	5,952,586
SHAREHOLDERS' INTEREST	13,088,975	6,752,586
LEASES	256,605	-
	K13,345,580	K6,752,586

APPENDIX THREE

SPECIALITY FOODS (Z) LIMITED

COMPANY STRUCTURE



6.2 COMMENTS

6.2.1 In commenting on the operations of Speciality Foods (Z) Limited, it is important to appreciate the fact that the development of agriculture, let alone food processing, are in their elementary stages. Consequently, tremendous amounts of agricultural products go to waste. Obviously, this should not have been the case if Zambia had the capacity to process and preserve agricultural products to the extent that is desirable.

6.2.2 The efforts of Speciality Foods (Z) Limited at processing and preserving agricultural products, together with those of its few competitors, fall far below the desirable national capacity. In a highly urbanised country like Zambia (43 per cent), it is socially important that there exists a veritable food processing base to match the rising demand for pre-processed foodstuffs.

6.2.3 Viewed against the foregoing remarks one may see that the request by Speciality Foods (Z) Limited for international industrial cooperation/assistance should be accorded the attention that it deserves. The running theme in this report is that the Zambian consumer market for nearly all products remains far from being satisfied.

7.0 VIMAL TEXTILES LIMITED

P.O BOX 31488
LUSAKA, ZAMBIA.
TELEPHONES: 218826
216487

7.1 PROFILE:

7.2 Vimal Textiles Limited was constituted in 1974 with a share capital of K9 million. Currently, it has a labour force of 92. Its property includse.

a. Premises:

(i) Own plot at Stand No. 5257 Mukwa Road, Lusaka. The extent of the plot is approximately two hectares. On the premise is a large factory which houses weaving and finishin, machines for canvas tarpaulins and bed sheets, and

(ii) Rented premise at Stand No. 2384, Longolongo Road, Lusaka. The premise contains offices and stitching and eyeletting machines for tarpaulins.

b. Machinery:

(i) 32 Picanol Weaving Looms;
(ii) 2 Sectional Warping Machines;
(iii) 4 Pirn Winders with 32 spindles;
(iv) 1 Cone-to-cone winder;
(v) 1 Assembly Winder;
(vi) 1 Two-for-one twisting machine;
(vii) 1 Yarn Dyeing Plant;
(viii) 3 Dyeing Jiggers;
(ix) 3 Padding Machines;
(x) 2 Cylinder Dyers;
(xi) 1 Jet Dyeing Machine; and
(xii) 1 Stenter.

7.2 **Product Range**

7.2.1 Vimal Textiles Limited manufactures canvas , material, tarpaulins and bed sheets. Annual turn-over from the sale of the products amounts to well over K68 million. Presently, it does not export any of its products because of the rapidly increasing local demand. The firm's annual imported raw material needs are as follows:

RAW MATERIALS	CCCN NO.	FOREIGN EXCHANGE REQUIREMENTS (US$)
Dyes, water proofing chemicals	32,05.90	875,000
Polyster yarn (man-made)	51.01.00	500,000
Eyelets	83.37.90	30,000
Weaving equipment	84.37.90	350,000
Weaving Spares	84.38.20	50,000
TOTAL	-	1,805,000

7.2.2 For purposes of international industrial cooperation, Vimal Textiles Limited would like assistance in its plans to expand its capacity to produce canvas material and tarpaulins. this is precisely because of the increasing national demand for canvas and tarpaulins to cover agricultural produce (especially maize) during the rainy season.

In this respect, the enterprise would like to install new canvas - weaving and waterproofing capacity. Equally important is the need to increase the production of tarpaulins. In view of the lack of the necessary machinery and spare parts on the local market, let alone the persistent nation wide foreign exchange constraint, Vimal Textiles Limited will greatly benefit from international industiral assistance.

The market potential is vast. For instance, the country presently needs well over 16000 tarpaulins and canvas tents annually. Of this Vimal Textiles Limited supplies only 4,000 leaving a shortfall of over 12,000 which is made good by imports. Given adequate and appropriate plant machinery and spareparts the enterprise has potential to satisfy national demand for canvas material and tarpaulins.

7.3 In terms of the local market, Vimal Textiles Limited faces no competitors in as far as actual production of the two products is concerned. Bonar Canvas Limited and Gourock Rope (Z) Limited only deal in imported waterproof canvas and tarpaulins.

7.4 In view of the above, the enterprise is looking for international industrial assistance in expanding its canvas and tarpauling production capacities and rehabilitation and modernisation of its existing machinery, some of which has been in operation for over 20 years.

7.5 The 1988 Balance sheet and Profit and Loss Account together with the Management Structure are appended hereto.

7.6 COMMENTS

7.6.1 The canvas and tarpaulin production sections of Vimal Textiles Limited are crucially important when seen against the backdrop of Zambia's policy to inten sively diversify its economy from copper mining and sale into agriculture.

7.6.2 Already, this institutional policy stress has borne tremendous fruits over the past few years. Maize grain output, for instance, had increased from insignificant levels in the 1970's to an impressive figure of 15 million X 90kilogramme bags by the end of the 1987/88 planting season. Nevertheless, despite this phenomenal increase, the nation has not as yet come round to putting in place permanent grain storage facilities. Consequently, huge amounts of maize grain get soaked and go to waste every year. Obviously, this would not have been if Vimal Textiles Limited were assisted with the procurement of the necessary equipment and machinery that it requires to step up its waterprooof canvas and tarpaulin production capacity. As already indicated, the enterprise only produces less than 25 per cent of total national demand. It is its connection to the agricultural sector that makes Vimal Textiles Limited an attractive economic proposition even in the eyes of the Government.

APPENDIX ONE

VIMAL TEXTILES LIMITED BALANCE SHEET AS AT 31ST DECEMBER, 1988.

	1988		1987	
	K	K	K	K
ASSETS EMPLOYED				
FIXED ASSETS		3 138 538		2 914 215
CURRENT ASSETS				
Stocks & Work in Progress	8 295 541		2 951 613	
Debtors & Prepayments	3 097 265		2 245 767	
Cash & Bank Balance	3 056 483		251 181	
	14 449 289		5 448 561	
LESS:				
CURRENT LIABILITIES				
Creditors & Accruals	3 920 070		3 825 555	
Bank Overdraft	1 894 150		88 348	
Taxation	2 712 670		307 951	
Insecured Loan	-		200 000	
	8 526 890		4 421 854	
CURRENT ASSETS		5 922 399		1 026 707
		9 060 937		3 940 922
FINANCED BY:				
SHARE CAPITAL		3 900 000		1 925 000
RESERVES		5 160 937		2 015 922
SHAREHOLDERS' FUNDS		9 060 937		3 940 922

)
)
) DIRECTORS
)
)

		9 060 937		3 940 922

APPENDIX TWO

VIMAL TEXTILES LIMITED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1988

	1988	1987
	K	K
TURNOVER	32 114 581	9 974 619
OPERATING PROFIT FOR THE YEAR	8 780 555	2 252 646
INTEREST PAYABLE	(222 670)	(178 686)
TAXATION	(3 437 870)	(307 951)
RETAINED PROFIT FOR THE YEAR	5 120 015	1 766 009

STATEMENT OF MOVEMENT IN RESERVES

	1988	1987
	K	K
RESERVES AT 1 JANUARY 1988	2 015 922	249 913
ALLOTMENT OF BONUS SHARES	(1 975 000)	-
RETAINED PROFIT FOR THE YEAR	5 120 015	1 766 009
RESERVES AT 31 DECEMBER 1988	5 160 937	2 015 922

APPENDIX THREE

VIMAL TEXTILES LIMITED MANAGEMENT STRUCTURE.

- BOARD OF DIRECTORS
  - GENERAL MANAGER (DIRECTOR)
    - CHIEF ACCOUNTANT
      - SENIOR ACCOUNTANT
      - SENIOR ACCOUNTANT
    - WORKS MANAGER
      - WEAVING TECHNI- CIAN
      - WEAVING TECHNICIAN
    - ADMINISTRAION MANAGER

8.0 KAMRA LIMITED

P.O BOX 33805
LUSAKA, ZZAMBIA

TELEPHONES: 211047
217353
TELEX: ZA41994

8.1 PROFILE.

Kamra Limited is a leather products manufacturing concern. It was established in 1988 with a share capital base of K500,000.00. It is wholly owned by Zambian ationals and employs a labour force of 100 among whom is an expatriate production manager. The enterprise has its own factory, an unexploited plot and residential property which are all in Lusaka. Currently, expected annual turnover,is K7.5 million. The management structrure of the enterprise is attached at the appendix. Glimpses of the latest financial annual report could not be procured as the enterprise only began operations at the beginning of 1988.

8.2 PRODUCT RANGE

8.2.1 The company produces gents', ladies' and children's shoes. Sales amount to K7 million and US $30˙000 locally and abroad, respectively. To produce the said products, the enterprise imports the following:-

RAW MATERIAL	SITC NO.	ANNUAL FOREIGN EXCHANGE REQUIREMENTS US .$)
UNIT SOLES INSOLE BOARDS & STIFFENERS	640510	180;0000
PVC & PU MATERIAL AND GLUE	411000	50,000
TOTAL	-	230,0000

NB: Processed leather is sourced [illegible]lly at a cost of K1.5 Million .

8.2.2 On the local market Kamra Limited competes with Bata Shoe Company Limited, Copperbelt Shoe Company Limited, and Twinkle Shoes Limited. Apart from Bata Shoe Company Limited the other two enterprises are small and mostly engage in the production of plastic shoes. What the three enterprises produce, however, do not meet the increasing demand for footwear in the country of 7.2 million people. It is against this background that Kamra Limited plans to diversify into the production of leather shoe uppers and soles which it is currently importing at great cost. The enterprise is ready to provide up to K8 million counterpart funds for the proposed diversification programme to bring in relevant machinery and equipment. And because it is a new venture, Kamra Limited would like to receive assistance under the international industrial cooperation scheme in almost all areas consultancy, management, joint venture, new technology, manpower training, marketing, to mention but a few.

8.2.3 After satisfying its production requirments, Kamra Limited would like to go into the export of surplus leather shoe uppers to Europe and the United States of America where there are ready markets. It is envisaged that the exportation of uppers will greatly improve the enterprise's operations in terms of having ready foreign exchange resources for the importation of equipment and spareparts. Currently, operations are hampered by foreign exchange shortages.

8.3 **COMMENT:**

8.3.1 The proposed leather shoe upper and sole production unit by Kamra Limited is an extremely viable proposition in view of the country's rising demand for footwear. The limited production capacity of Kamra Limited and that of its competitors (Bata Shoe Company Limited, Copperbelt Shoe Company Limited, and Twinkle Shoes Limited) continues to be a source of concern against the backdrop of a rapidly rising population.

8.3.2 Presently, the difference between national demand and supply is being made good by imports. This is achieved at tremendous foreign exchange cost. In view of the nationwide foreign exchange constraint, international industrial assistance to Kamra Limited aimed at increasing its production capacity will consequently help the country to cut down on the level of foreign exchange that it is using to import finished leather footwear.

8.3.3 Secondly, the readily avialable raw hide resources is another variable in favour of the propositon by Kamra Limited. The country has an estimated 2.6 million cattle population. Out of this 80 per cent are in the hands of traditional farmers who normally leave hides to decay after slaughtering their animals. The situation is, however, changing in light of the increasing tannery capacityin the country. It is envisaged that in the near future there will be a plentiful supply of processed quality leather for final processing into semi-finished and finished footwear products. This analysis is premised on the number of companies which are venturing into the tannery business.

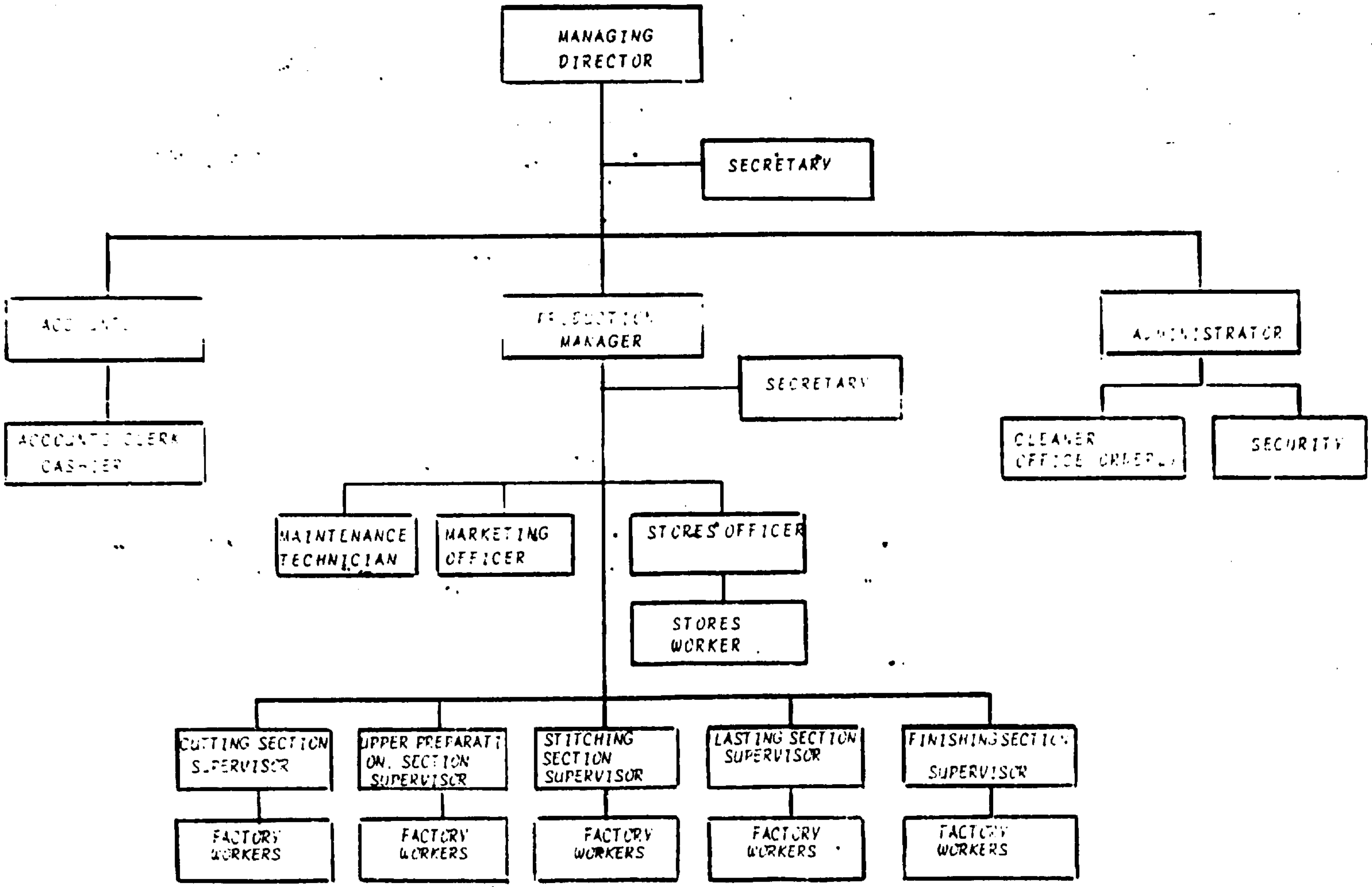
8.3.4 As already indicated the market for surplus leather uppers and soles is readily abundant in the USA and Europe. the relatively low production costs will obviously make the proposed venture lucrative.

8.3.5 The management of Kamra Limited are eagerly looking forward to entering into a mutual international industrial cooperation agreement. My analysis is that given the desired international cooperation the enterprise can become an extremely viable venture. In this regard, Kamra Limited has an added advantage in the sense that it has experience in working with international staff (the enterprise has an expatriate Production Manager in its employ).

APPENDIX

Kamra ltd

PRESENT ORGANIZATION STRUCTURE AND INFORMATION FLOW



9.0 MDM ENGINEERING COMPANY LIMITED

P.O BOX 21997 Kitwe, ZAMBIA.

TELEPHONE: 214888/214569/214126/214938
TELEGRAMS : "EMDI EM:
TELEX: ZA52034

9.1 PROFILE

MDM Engineering Company Limited is a designer and manufacturer of various types and models of steel products. The enterprise was established in 1959 and the present paid up share capital is K2 million, and is wholly owned by Zambians, In 30 years of operation the enterprise has gained experience and engineering know-how which make it to be among the most refined engineering concerns in the country. Buildings and installations include one forging shop, one machine shop, office block and a big warehouse. The enterprise currently employs 100 people among whom are design engineers, artisans and qualified administrators.

9.2 The company produces harrows, ploughs, cultivators, planters, fastners and general forgings. Local sales of these agricultural and industrial products give the enterprise an annual turn-over of well over K9 million. However, the enterprise is potentially able to achieve turnovers ten times this level if it were afforded the necessary resource levels in terms of foreign exchange to import machinery, equipment, and spareparts to service the same. Moreover, some of the existing capacity cannot be fully utilised due to the foreign exchange constraint. The foreign exchange constraint is particularly severe in light of the fact that the country has not yet managed to develop and establish a raw steel production capacity. Consequently, the enterprise imports all its steel requirements or buy the same from local importers.

9.3 RAW MATERIALS

9.3.1 At the time of the study the enterprise was spending US $1.1 million to import various grades of steel, steel pipes, bolts and nuts

9.3.2 In getting around the current production difficulties, the enterprise would like to have international cooperation assistance in the rehabilitation and modernisation of plant machinery with a view to increasing its production of agricultural tools and implements and a range of industrial spares. In this respect MDM Engineering Company Limited is looking for international partners who can either enter into joint ventures with it or supply it with new and modern technology. The enterprise is willing to offer its land and buildings, existing assets and manpower resources for the purpose of international industrial cooperation.

9.3.3 Locally, the enterprise does not face any serious market competition. Currently, only Northland Engineering Limited is producing ploughs, cultivators and harrows. Don Engineering Limited, Demar Limited, Copperbelt Metals limited and a few other enterprises only import and sale these implements. Consequently, one may see that the market for agricultural tools and implements is far from being satisfied.

9.3.4 In terms of financial operations the enterprise is comparatively above board as may be seen from appendix one. The relative profitability of the company is backed by a wide base of fixed assets (c.f. Appendix three).

9.3.5 The management structure of the enterprise is attached at appendix four.

9.4 COMMENTS

9.4.1 MDM Engineering Company Limited indeed offers a lot of potential for willing international partners. Viewed against the backdrop of its long track record in engineering, the enterprise will have no difficulties in absorbing new technology. Equally important is the offer of assets (land, buildings, etc) to intending cooperation partners by the enterprise. It is envisaged that the offer will provide a propitious environment for a meaningful transfer of science and technology. On the other hand, the product market is almost limitless.

9.4.2 This analysis is premised on the fact that most of the agricultural activity in the country is carried on by rural based peasant farmers. These account for 60 percent of the marketed maize output in the country. As a staple food, maize production enjoys priority status in the eyes of the Government. However, the peasant producers use only hoes and axes to produce maize and other agricultural output. The current system of cultivation is extremely inefficient and the peasants account for such a high proportion of marketed maize output only because of their numbers relative to the size of the Commercial sector. The policy of GRZ is to dynamise peasnant agricultural production through producer price incentives and more importantly through the provision of affordable, suitable and easy to use hand-operated agricultural tools and implements (ploughs, harrows, planters, etc). It is important to note that this is the line of production in which MDM Engineering Company Limited wishes international industrial assistance.

9.4.3 As already indicated, the market potential is vast. Apart from peasant farmers who desparately need ploughs, harrows, planters, etc, MDM Engineering Company Limited has a broad based clientele among the many agricultural youth schemes which GRZ has established in all the nine provinces of the country. Any further investments will, therefore, be worthwhile.

APPENDIX ONE

THE MDM ENGINEERING COMPANY LIMITED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1988.

	1988	1987
	K	K
Turnover	8,749,781	3,[illegible]43,006
Profit before Taxation	340,888	307,340
Taxation	82,000	104,398
Retained Profit for the Year	258,888	202,532

STATEMENT OF MOVEMENT IN RESERVES

Reserves at 1st April, 1987	1,759,323	998,791
Capitalisation Issue	(1,000,000	-
Surplus on valuation	-	558,000
Retained Profit for the year	258,888	202,532
Reserves at 31st March 1988	1,018,211	1,759,323

APPENDIX TWO

NDM ENGINEERING COMPANY LIMITED BALANCE SHEET - 31 MARCH, 1988

	1988	1987
	K	K
Employment of Capital		
Fixed Assets	2,790,782	1,946,854
Investment in fellow subsidiaries		
Current	36,000	36,000
Liabilities		
Stock	2,752,284	2,475,576
Debtors	2,206,649	994,601
Subsidiary Company	-	449,259
Bank Balances and Cash	370,213	2,459
	5,329,146	3,921,895
Net current Liabilities		
Creditors	1,615,872	2,087,363
Holding and Fellow Subsidiary companies	2,889,845	1,243,580
Bank Overdraft	988,737	213,220
Taxation	143,263	101,263
	5,637,717	3,645,426
Net current Liabilities	(308,571)	276,469
	2,518,211	2,259,323
Capital employed		
Share capital	1,500,000	500,000
Reserves	1,018,211	1,759,323
	2,518,211	2,259,323
	2,518,211	2,259,323

APPENDIX THREE

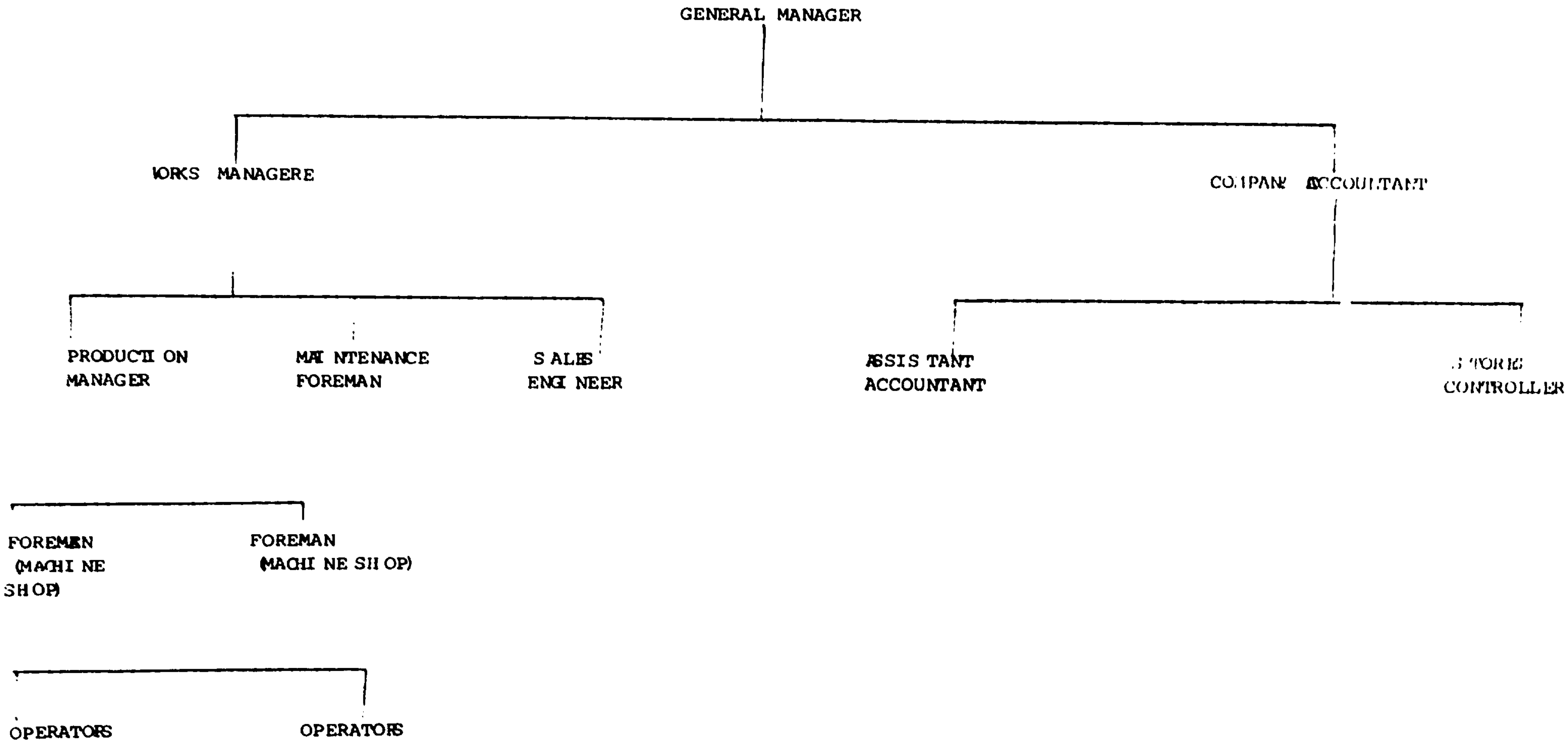
THE M.L.M ENGINEERING COMPANY LIMITED

FIXED ASSETS

Summary	Leasehold and & Buildings	Plant & Machinery	Furniture & Fittings	Motor Vehicles	
	K	K	K	K	K
Cost or Valuation					
AS AT 1 APRIL 1978					
COST-	-	191,085	116,986	395,936	704,007
Valuation (1983)	-	180,100	-	-	180,100
(1987)	1,405,000	-	-	-	1,405,000
	1,405,000	371,185	116,986	395,936	2,289,107
Additions	231,165	735,158	22,248	256,554	1,245,125
Disposals	-	-	(6,200)	(185,300)	(191,500
At 31 March 1988					
Cost	231,165	926,243	133,034	467,190	1,757,632
Valuation (1983)	-	180,100	-	-	180,100
(1987)	1,405,000	-	-	-	1,405,000
	1,636,165	1,106,343	133,034	467,190	3,342,732
Depreciation					
At 1 April 1987	-	138,017	80,299	123,937	342,253
Charge for the year	-	138,293	29,461	89,310	257,064
Disposals	-	-	(2,067)	(45,300)	(47,36
At 31 March 1988	-	276,310	107,693	167,947	551,95
Net Book Value					
At 31 March 1988	1,636,165	830,033	25,341	299,243	2,790,78
At 31 March 1987	1,405,000	233,168	36,687	271,999	1,946,854

APPENDIX FOUR

MDM ENGINEERING COMPANY LIMITED MANAGEMENT STRUCTURE



10.0 CONCLUSION

The project survey confirmed oneof the most cited problems in Zambia, i.e, that enterprises in various economic sectors are operating under installed capacities. In all cases, this has been caused by persistent lack of foreign exchange to import critical raw materials on one hand, and spareparts to service machinery, on the other. Obviously, at the root of the difficulties are are the declining fortunes of copper which had for a long time been sustaining other sectors in the economy. Consequently, the level of supply of basic needs and social services has drastically declined. In its efforts to redress the situation, GRZ has been putting in place heroic economic policies and measures the success rate of which is chequered due to budget and other resource constraints.

It is in light of the foregoing that international industrial assistance to individual enterprises in Zambia would contribute greatly to ameliorating the foreign exchange bottleneck which is being experienced now. The enterprises surveyed are more than willing to enter into mutual economic partnerships with their counterparts in the industrial world.