Sida Evaluation 03/36

Enterprise Development Programmes in Tanzania and Zambia

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Executive summary

The Enterprise Development Programmes (EDP) were initiated in 1995. The objectives were to encourage and facilitate growth in the private sectors in Tanzania and Zambia through forming twinning partnerships between small- and medium scale enterprises there and Swedish firms. Sida contracted two consultancy firms to manage the EDPs; Boliden Contech (later changed to WP International) in Tanzania and Hifab International in Zambia. The project logic was the same in both countries.

When the two programmes came to an end in 2000, the consulting firms wrote final reports on progress and achievements. Sida decided to wait for two years before an evaluation was to be commissioned so as to allow time to pass and the companies to mature and develop their relationship. The purpose of this evaluation is to assess the achievements of the Programmes against their objectives as identified in the Logical Framework Analyses (LFA). The two levels of the evaluation are;

– how the individual enterprise have developed
– growth and poverty reduction in a macro perspective

The evaluation was carried out in June 2003. All companies that were associated with the program and that still operate were visited by the evaluation team. A sample of Swedish firms were interviewed, as well as management of the two consulting firms..

According to LFA, the target was to support 20–25 enterprises and establish at least 15 twinning relationships in each country. At least 80% of supported companies should show an increase in profitability at the time of evaluation. The results are that altogether 54 companies in Tanzania and Zambia were screened and took part in training/counselling. Relationships with a Swedish partner were initiated for 49 of them. When the programmes ended in 2000, 19 partnerships were still active. In June 2003, 6 of the partnerships/twinning relations relationship had survived.

The project objectives expected 90% of the supported companies to be in business still by year 5 (of the programme). Our data for year 8 (2003) show that by then 75% of the companies were still in business, which suggests that the figure for 2000 is probably rather close to the target. When it comes to company performance the achievements are further from the targets. 19 companies (32%) said that they had increases in turnover up to 2003, and 17% have increased their profitability (average for both countries).

	Tanzania (25 companies)	**Zambia (25 companies)**	**Targets**
Companies surviving 2003	71%	76%	90%
Lasting relationships	10%	8%	20–25%
Increased turnover 2003	29%	36%	80%
Increased profitability	9%	28%	80%

The Programmes were meant to contribute to GDP growth, to have an impact on private sector development, and also to reduce poverty. The 54 companies that were in various ways involved in the EDP together had more than 2500 employees. The number of new employment opportunities that can be linked to the EDP amount to some 135 jobs. A 5% increase amongst the EDP enterprises is higher than the average increase in jobs in Tanzania and Zambia, but the absolute figures are small. The Tanzanian labour force increases by 600 000 persons every year, most of whom have to find jobs in the informal sector and micro-enterprises.

The evaluation analysed impact on growth, private sector development and poverty alleviation by assessing how these macroeconomic variables have changed, and which factors that are commonly supposed to contribute to such changes. GDP growth has been higher in Tanzania than in Zambia, and is now reaching more than 6 % annually. The private sector contributes a large and increasing share of GDP in both countries, but indicators of poverty suggest that the situation of the poor is deteriorating in both countries, and their numbers are increasing.

Growth and private sector development are caused by a number of complex and interlinked factors at macro-, meso, and microlevels. The EDPs have only been targeted at microlevel factors, and then mainly through one instrument (partnerships/twinning). The programmes were not coordinated with other donors, nor did it work through local institutions. Hence it is not plausible that it could have an impact at the macro-economic level.

The total expenditures of the EDP in Tanzania were SEK 19.4 million, and the total expenditures on the EDP in Zambia were SEK 16.7 million. If expenditure is to be related to the targets and results achieved;

- it has cost 36 million to create 6 lasting partnerships. This implies an expenditure of almost SEK 6 million per partnership, which is high.
- a total of 134 new jobs can be attributed to the EDPs. This suggests a total cost per job of around SEK 270 000, which is also high.
- around 10 companies in each country have improved business, and the efforts of the EDP's have played a part in this.

Put together the overall targets of the programme were not achieved. The lessons we can learn are several. First the concept of the programme was not sufficiently clear; that is, the nature of relationships between companies and how they would contribute to long-term objectives were vague. Second the importance of constant dialogue, equal partnerships, local presence and substantive competence need to be emphasised. Thirdly, lessons can be learnt on how the selection of companies involved took place and the subsequent follow-up and control; and the implications are tighter control and in particular closer attention to the Swedish firms competence, motivation and business ethics.

Chapter 1. Introduction

Background to the Enterprise Development Programmes

Industrial development in general, and in particular private sector growth, has an important role to play in development. In development cooperation, there is an agreement that in particular the growth and development of small and medium enterprises (SMEs) are important for the creation of employment opportunities, economic linkage effects, value added in firms, and hence in the alleviation of poverty.

Swedish development cooperation has a rich experience of various instruments to promote SMEs, for example through sister industry programmes, institutional twinning, support to investment banks, entrepreneurship training, vocational and other forms of technical training, policy development, rural hire purchase programmes, and so on. It is not an exaggeration to say that few of the efforts have met with immediate and unequivocal success. On the contrary, as time has passed, most of the actors involved in these programmes have become aware of how difficult it is to find effective means to promote viable business development.

In the 1990s Sida launched programmes that built on the notion that firms in developing countries could develop through partnerships with Swedish companies. The idea was to find firms in developing countries that had the potential to enter into lasting, mutually beneficial business arrangements with firms in Sweden. The relationship could build on exporting to Sweden, subcontracted production and licensing, exports and installation of equipment, marketing Swedish exports on the domestic market, joint exploration of new markets, and so on. The main features were to avoid working through government agencies, to create direct business to business relations, and to combine this match-making with limited amounts of technical assistance and credit facilities.

One such Enterprise Development Programme (EDP) started in Tanzania in 1995. A similar programme started in Zambia the same year. Sida contracted two consultancy firms to manage the EDPs; Boliden Contech to manage the programme in Tanzania, and Hifab International for the one in Zambia. Both contracts were awarded following open competitive bidding. Sida had financed SME programmes in both countries before, in Tanzania for almost 20 years, and in Zambia since the late 1980s. But the new EDP broke traditions by working with new partners in the countries and by working with new (in this context) Swedish consulting firms. The project logic was the same in both countries, but there are differences in how the projects were managed, and of course in the enfolding process of cooperation. Both programmes started with 3 year contracts, were extended for two years, and thus lasted a total of 5 years. The objectives of each programme were noted in Logical Framework Analysis formats.

Purpose of the evaluation

When the two programmes came to an end in 2000, the consulting firms wrote final reports on progress and achievements. But it takes time before it is possible to see whether this kind of support has any lasting impact. Sida decided to wait for two years before an evaluation was to be commissioned. The two programmes are now subject to one evaluation, as this is expected to help draw lessons from strengths and weaknesses in them. A comparison could also be useful to assess achievements, as well as for economies of scale in the evaluation process. The terms of reference for the evaluation focus on:

1. assessment of results at enterprise level through analysis of indicators of company performance, as for example changes in turnover, employment, business development, and profitability;
2. analysis of whether the programmes have contributed to broader development objectives, such as development of the private sector;
3. differences in the process of cooperation between the two programmes that can guide the design of new initiatives to promote SMEs in developing countries;

The terms of reference for the evaluation are enclosed in annex 1. The evaluation should assess the EDPs against their objectives and indicators of achievement as identified in Logical Framework Analyses.

Evaluation methods

This evaluation (like most others) is a complex research task, which requires a number of decisions on sample, data collection methods, interpretation and analysis. The first methodological decision was to develop a model to analyse the links between the EDPs and their objectives in terms of economic development indicators. The connection between company performance on the one hand, and economic development on the other hand, is not simple. It is obvious that the business performance of a handful of enterprises will be a marginal share of aggregate economic indicators, and both national, regional and sector development is influenced by many other factors. Our approach to the task of analysing these connections built on:

1. a model of factors that cause private sector development
2. a model that superimposes the interventions of EDPs on sector development
3. analysis of macro-economic indicators and relating these to micro-economic indicators of aggregate company performance

The models that guide these steps in the evaluation are further elaborated in chapter 3. However, to make the link between aggregate indicators of growth and the EDPs require empirical data from companies as well, and thus selection of a sample of firms. Both programmes aimed to support 20 to 25 companies and to establish 15 partnerships.

The question was whether to visit a sample of companies or all of them, or possibly a combination of all partnerships and a sample of those firms receiving other forms of support. We decided that all partnership companies were to be visited. We developed a format to obtain information on all the other companies. It would be of interest to know what has happened to the other companies, and it cannot be taken for granted that the partnership companies have been more successful in the long run than the others. We have visited all companies that were in some way associated with the program and that still are in operation in both Tanzania and Zambia. There is a list of companies visited and persons interviewed in annex 3.

The data on company performance was collected through interviews, and a standardised format for interviews was developed (attached in annex 4). It would have been desirable to obtain access to the companies' annual reports, but we could not assume that the companies would share these with us, nor that we would be able to interpret their real significance in the short time available. We have asked about changes in, for example, turnover, profit and employment, rather than absolute figures. We have qualitative data, at times supplemented by quantitative indicators. We have worked on the assumption that it is better to be vaguely right than precisely wrong.

One of the difficulties was to identify the relevant level of analysis. As an example, one of the firms that took part in EDP was Dabaga Vegetable and Fruit Canning Co. That company started operating in 1976. It has developed over the years, accumulated profits and diversified into new products, packaging materials, and into new markets. In 1995, there were around 300 employees. The company was invited to join EDP, and did so with a specific purpose in mind – to seek assistance in setting up a unit to produce plastic bottles for its tomato sauces (plastic bottles were bought from producers in Dar-es-Salaam, but supplies were irregular and expensive).

A partnership was established and Dabaga obtained help in locating a source of supply. The equipment was bought and successfully installed, and is now in operation. The bottle producing unit employs 7 people, but does not generate any profit yet. When we analyse the impact of the programme, we can obviously not credit the company's total turnover, profits and employment to the EDP. It is only a small part of its operations that were affected by EDP. In this case the distinction is relatively easy, at other times the nature of old and new operations are more integrated and hence difficult to separate. Chapter 3 treats company performance and we distinguish between the companies' total operations, and the parts affected by EDP, where it is relevant to maintain such a distinction.

Yet another difficulty concerns the nature of impact. It is relatively easy to distinguish between the firms where programme impact has been non-existing, small, or high. But we have also found instances where the interventions through EDP had negative consequences, by encouraging the companies to chase project ideas that were extremely risky – and with partners that were not serious. There is an opportunity cost to the use of time and money, which may be far higher than the directly negative consequences (which by themselves are quite significant).

Furthermore, attribution is difficult. Some of the companies in Zambia were prior to EDP involved with South Development and NORSAD. The activities that were supported from these organisations were in most cases taken over by Hifab International and EDP. In Tanzania as well, many of the partnerships were already established when the EDP entered the scene. It is difficult to identify the effect of the EDPs alone. The programmes are part of larger chains of events, with and without aid, that help influence company performance.

Guide to the reader

The structure of this report is very simple. Following this introduction chapter 2 presents data on the companies and chapter 3 discusses whether the partnerships can be said to have contributed to growth and poverty alleviation. Chapter 4 analyses the process of cooperation. The annexes contain terms of reference, list of companies visited, instruments of inquiry, and most important – a general analysis of growth, development and poverty in Tanzania and Zambia (a summary of current literature). This is essential background to understand the difficulties faced by the companies, as well as the possibilities for aid programmes of this nature to have an effect on macroeconomic development.

Chapter 2. Results of the Enterprise Development Programmes

In this chapter we will look at what has happened at the level of individual firms. The logic of the EDP was to invite a number of firms in Tanzania and Zambia to express an interest in the programme, to screen them and select those with the highest potential to engage in a long-term cooperation with Swedish firms, to provide training, and in the course of the training, also find Swedish partners and facilitate further business development between the companies. Let us start by reviewing how many companies were involved, and then proceed to analyse how the partnerships, the so-called twinning arrangements, worked out.

Extent of the programmes outreach

During the 5 years of operation, programme management in Tanzania and Zambia had a total of 54 companies in some ways engaged in EDP activities; 39 in Tanzania and 25 in Zambia. It seems as if the interest to take part in the programme was very high. More than 900 companies in Tanzania and 300 in Zambia responded to the advertisements and other announcements made. Still, many of these expressions of interest came from companies that were said to have a low potential to take part in the EDP. Instead, companies were at times directly invited to join, even if they had not themselves taken the initiative to express an interest in the programme.

However, the figure of 39 companies in Tanzania is a slight exaggeration, though the figure as such is correct. As an example, one of the project ideas was to export coffee from Tanzania to Sweden. This presupposed cooperation between three Tanzanian firms; The Kagera Cooperative Union, whose members grow coffee; the Tanganyika Instant Coffee Company, which processes coffee beans to instant coffee; and the Tanzania Tea Blenders, which trades in coffee and tea. But it is one and the same project with one Swedish partner, though all Tanzanian companies took part in some of the training programmes. It is three Tanzanian companies, but one attempt to form a partnership.

Similarly there was a project to introduce light weight concrete on the Tanzanian market, which involved Utege Technical Enterprise as the main link of the project, but also Highlands Building Products Company (access to raw materials), and NOREMCO, a building firm that might have become a user of the products. It is necessary to have these considerations in mind when assessing the number of Tanzanian firms engaged in the EDP, and the level of their involvement. However, when we look at the partnerships in the year 2000, they were all made up of one firm in Tanzania to one firm in Sweden

Table 2.1. Number of firms involved in the Enterprise Development Programmes.

	Tanzania	Zambia
Companies that were screened and subsequently took part in training/counselling	39	25
Companies where a relationship with a Swedish partner was initiated	26	23
Companies that had an ongoing relationship with the Swedish partner in 2000	10	9
Companies that had an ongoing relationship with the Swedish partner in 2003	4	2

Source: Final reports of the EDP programmes, the evaluation's follow up with companies.

The LFA does not explicitly set a target for how many lasting business relationships that should be created. It says that at least 25 enterprises be supported, and that at least 15 twinning relationships be established at the end of the project. As the figures in the table show, there were far more firms that received some form of support in Tanzania (we will see later how much), so this target was exceeded with a considerable margin.

Creation of lasting business relations

The identification of a Swedish partner could mean quite different things. The Commercial Brothers in Morogoro were interested in water pumps of a Swedish make, and were put in touch with an exporting firm. This firm sent a representative to Tanzania, and Commercial Brothers arranged an exhibition and a demonstration on site. The pumps failed to convince Commercial Brothers and the audience (which was substantial), and the venture was not continued. Somewhat less than half of the links formed did not result in any more substantive engagement than shown in this example (which explains how one moves from the figure of 26 to 10 (Tanzania) and 23 to 9 (Zambia) in table 2.1).

However, in 16 cases there were more determined efforts to form lasting links in Tanzania. Swedish partners visited Tanzania, and Tanzanian partners visited Sweden. Samples of products were exchanged, and the first steps were taken to write Letters of Intent, or similar expressions of a desire to form lasting relationships. However, by the time the EDP came to an end in 2000, 6 of those twinning relationships had already proved not to work, and 10 ongoing relationships remained.

It is one thing to establish a business relationship when the partnership is supported by training, some access to financing, advice and counselling, such as provided by EDP, and quite another to survive on the basis of the firms' own efforts. It is perhaps not surprising that only four of the partnerships remained 3 years later? The answer depends on how we measure success. If the expression in the LFA is meant to be taken as that 15 twinning relationships created in 2000 should last, then it is a failure that not more than 4 have survived. As the notion of the word twinning suggests some permanence in the relation, it is reasonable to conclude that to have created only 4 surviving partnerships is a result that is far from satisfactory.

In Zambia 23 companies got connected to a Swedish counterpart. The degree and quality of these contacts differed a lot. Only seven of them had the intention to form a twinning relationship. In most cases it was a short consulting activity. An expert from Sweden came down, made some form of study or business analysis, gave advise in some specific area, trained people or helped import equipment from Sweden. To take an example, the company Profit Publication faced several problems with finance, marketing and production. What they needed was someone that could establish an action plan for the company. Profit was therefore connected to two Swedish journalists. As we have visited and interviewed managers in all the Tanzanian and Zambian firms in the course of the evaluation, we also find it necessary to raise some questions regarding the nature of the twinning arrangements.

First, several Tanzanian and Zambian firms are owned and managed by Swedish (and other) expatriates. There should not be any mistake concerning our appreciation of the efforts made by these entrepreneurs. It is very valuable that people who have come to Tanzania as volunteers, experts on aid projects, or in other capacities, find the country so fascinating that they decide to stay, invest capital, develop companies, create employment opportunities, and on the whole make very useful contributions to the economy of the country. In these cases, the people we met had built well run companies in the face of considerable difficulties, they still face large risks and may well merit support and encouragement. The question is if an aid programme such as EDP is the right answer?

Second, in theory, actors on the EDP appear in one of three roles. There is the programme coordinator, who builds and sustains the network of other actors. There are the domestic companies that are supposed to be the immediate beneficiaries of the training and business opportunities created, the Swedish companies who may also gain by having market access, secure imports, or take part in an investment. There are companies brought in on a commercial basis to provide services needed, such as training, facilities, transport and clearance of goods, etc.

Among the partnerships created at first, as well as in the year 2000, and remaining in 2003, were some companies that came in as suppliers of services, but who in the course of operations also became beneficiaries. Kola Hill in Morogoro was the venue where many of the training programmes were carried out, but there was also an effort to create a link with a Swedish hotelier (never took off) and staff took part in training. The agency that was used for shipping and clearing goods at DSM airport and harbour established a twinning relation of some permanence (though not surviving till 2003). The same was the situation with Customized Clearing and Freightlink Business services in Zambia. They were both involved in importing equipment for the other EDP companies when they also got to be beneficiaries (if that is the right word) of the programme. The firm that conducted most of the training programmes in Tanzania formed a lasting link (one of the four surviving), with another resource person contracted for the training.

It is quite beyond the scope of this evaluation to analyse how the relationships were formed, how the companies transformed from being net providers of skills and resources to EDP to instead being beneficiaries of the programme, and what effect this had on the contractual relationships – if any. But we must point out that we think it is a confusion of roles that is unfortunate. And it is far less of an achievement to create such obvious links than it would be to work with Tanzanian and Zambian companies that applied to the programme through the regular channels.

In conclusion, if we deduct one twinning relationship that was created by companies that supplied services to EDP (HanTan), and two that are companies owned and managed by Swedish partners (who were twinned with themselves in Sweden), we remain with one twinning relationship in Tanzania that seems permanent, and where the partners appear to be keen to continue doing business together. The Tanzanian company is Infobridge and the Swedish partner is Swedesurvey. But this partnership had been formed before the companies got in touch with EDP. The EDP may have had some role in facilitating the ongoing relationship, but can of course not be credited with having created it. In Zambia there was an ongoing relationship with Lufwanyama Enterprizes. Hifab International inherited/took over the role of South Development in encouraging, supporting and facilitating that relationship, but did certainly not create it. .

Infobridge was registered in 1994, but did not start activities until 1998. It is owned by three shareholders cum directors, all of whom graduated in land use planning from the university of DSM. The company works in the field of geographic information systems, develops computer packages/ software for physical planning, such as environmental planning and monitoring, urban land use surveying, etc. They undertake Global Positioning Systems mapping activities. When they started operations the staff rapidly increased to 12 professionals. EDP was helpful in providing training in accountancy, and also in analysing business plans, strategies, and the like. Infobridge had been in contact with Swedesurvey through training programmes in Sweden, and in connection to other Swedesurvey projects in Tanzania.

It is a strategic need for Swedesurvey to have local partners on consultancy assignments, and an equally strategic need for a small firm such as Infobridge to have access to technological expertise, training opportunities, and an agency such as Swedesurvey with a solid market reputation. The two companies have since secured several large projects in Tanzania together. Infobridge staff has visited Sweden several times, and vice versa. The companies are in constant contact, and are at present planning to establish a joint venture. It is a prime example of the type of lasting relationships that EDP was expected to create.

Working with firms that are survivors

As we have noted before, the project logic builds on that strong and viable Tanzanian and Zambian enterprises get engaged in the cooperation. It was assumed that Swedish firms would not be interested in working with partners that need a lot of assistance. Both projects have targets in respect of how the companies would develop following their participation in the EDP. These targets were noted in table 2.1, which summarised the experiences from Tanzania and Zambia. Tables 2.2 and 2.3 provide an overview of the data for the EDPs in Tanzania and Zambia.

First of all, it is clear that many of the firms do have the capacity to survive. The project objectives expected 90% of the supported companies to be in business still by year 5 (of the project). We have no data for that year, but our data for year 8 (2003) show that by then 75% of the companies were still in business, which suggests that the figure for 2000 is probably rather close to the target. But when it comes to company performance the achievements are further from the targets. 15 companies in Tanzania said that they had increases in turnover during the project period (1996 – 2000). The manager for Africa Tours said that "*those were good years, there was a rapid increase in tourism and travelling*". Ruhinda and Company also expanded, and during those years acquired a sisal estate and diversified into carpet weaving. It was evidently good years for that company too. Zzoikos and Kola Hill made good business, not least because of the services provided to EDP.

But these 15 are only 38% of the total number of companies supported through EDP, but they are more than half of those surviving to the year 2003. Some of the firms had not yet started, and one is irrelevant to consider. Tanzania Women Miners Association (TAWOMA) is actually not a company, but an NGO which is a cooperating organisations for women miners. Each member has her own business, mines herself, and/or employs temporary workers. TAWOMA is neither a producing nor a selling organisation, but an organisation to promote members' interests, to work with capacity development and assistance for the members.

In the next period (2000–2003), there are equally many companies showing an increase in turnover. Those that were started late in the 1990s, and early 2000 grow, but from very low levels. Maneno mengi actually ceased to exist, but the owner instead joined three colleagues and started Mawenzi Farm, with more or less the same business concept. The Swedish partner and two of the Tanzanian employees work with filming, media production, web design and also organise training in these fields. The other activities include hotel, restaurant, hiking tours, agro-tourism, and conference facilities.

Nine companies in Zambia show increases in turnover between 2000 and 2003 and seven show increases in profit. Increase in turnover is not always followed by increase in profits. Manzi Water rapidly increased its volumes with new products and new markets within the water bottling business. To manage the demand a new plant has been constructed and new machines are installed. This has put a hard pressure on cash flow and profits have decreased. A price reduction 2002 was a mistake and measures are now taken to get back to the former margin. One interesting observation is that all the firms that belong to the group with both increased turnover and profit are in the food- and agro-industries. The farms from Bedrock, Maplehurst, Rivonia, Chankwakwa and Chirundu

Table 2.2. List of surviving companies and their business development (Tanzania)

	Company	"Lasting" Partnership in 2003	Changes in turnover 2000–2003	Changes in profits
1	Commercial Brothers	No	Increase	No change
2	John's Engineering	No	Increase	No change
3	Kolla Hill	No	Increase	No change
4	Tanzania Tea Blenders	No	Large decrease	Decrease
5	Sindy Batik	No	Decrease	Decrease
6	Tommy's Dairy Farm	No	Increase	No change
7	Kibanda Arts	No	No change	No change
8	Women Mines Association	No	–	–
9	KC and Company	No	Decrease	No change
10	Utege Technical Enterprise	No	Increase	No change
11	Keshwaji Ramji Timber	No	Decrease	Decrease
12	Chani Auto Garage	No	Decrease	No change
13	Dabaga Veg & Fruit Canning	No	Increase	No change
14	UKH Accountants and Auditors	Yes	Large increase	No change
15	Tanga Ropeworks	No	Decrease	Decrease
16	Scanza Co	No	Increase	No change
17	Maneno Mnengi/Mawenzi	Yes	Increase	No change
18	Msemo Hotels and Tours	Yes	Increase	–
19	Africa Tours	No	Decrease	No change
20	Zzoikos	No	Decrease	No change
21	Infobridge	Yes	Large increase	No change

Source: Interviews, company visits

produce dairy products, jam, tomatoes, soya, fish and bananas. Another similarity is that they all are managed by non-Zambian owners. Out of the group of 10 most successful companies there is only one, Clean Fast, which is run by an indigenous Zambian entrepreneur.

The data on how the companies perform are summarised in table 2.4, where the achievements can be compared to the targets set for the two programmes. We compare business development to the total number of firms associated with the programme (as specified in the Logical Framework Analysis). Expressed as the share of total companies, it is not many that show a positive development. But as a share of surviving companies it seems that many of them actually do rather well in terms of turnover. The question of profits is difficult. We did not ask to see certified accounts, and if we had, it is likely that the figures would be at least two years old. In June 2003, most companies would not yet have certified accounts for the year 2001. Also the analysis of profitability can be difficult even with certified accounts. Even though profits in the sense of return on investment to shareholders was non existing, several of the companies who had increases in turnover also had the option to increase the profits to the owners, even if they often chose not do so.

Table 2.3. List of surviving companies and their business development (Zambia)

	Company	"Lasting"Partnership in 2003	Changes in turnover 2000–2003	Changes in profits
1	Dial a Cab	No	High increase	High increase
2	Customized Clearing	No	Slight decrease	Slight decrease
3	Bedrock	No	High increase	Slight increase
4	Rivonia	No	Slight increase	High increase
5	Cleanfast	No	Slight increase	Slight increase
6	Maplehurst	No	Slight decrease	Slight increase
7	Venus	No	Slight increase	Slight decrease
8	Ace Auto	No	High increase	No change
9	Setrec Steel and Wood Processing	No	Slight decrease	Slight decrease
10	Mwaca Gemstone and Mining	No	High decrease	High decrease
11	Glaster Trading	No	High decrease	High decrease
12	Cutline	No	High decrease	High decrease
13	Afe	No	High decrease	High decrease
14	Freightlink Business Service	No	High decrease	High decrease
15	Chankwaka	No	High decrease	High decrease
16	Chirundu	No	High increase	High increase
17	Shonga Steel	No	High decrease	High decrease
18	Lufwanyama Enterprises	Yes	High increase	High increase
19	Mansi Water	Yes	High increase	Slight decrease

Source: Interviews and company visits.

If we look at Tanzania only, six of the companies that had increasing turnover in the first period had decreases in the next period. There are clear and logical reasons for that at the level of each enterprise:

- Sindy batik – thefts, burglars broke into the store and stole most items twice, in the year 2000 and again in 2002
- Chani Auto Garage – because of misguided investments under EDP
- Ruhinda and Co – capital requirements of estate and new investment in carpet weaving
- Kheshawji Rami Timber – opening up of domestic market for competitive imports
- Africa Tours – decline in tourism following 11th September
- Zzoikos – less business generally, and loosing EDP business.

On the other hand there was one company that changed a downward trend in sales, two that started fresh and generated increasing sales, and yet another 12 continued to expand. This is a relatively good turnout, and shows that a majority of the firms have a reasonably good business idea and competent management.

Table 2.4 Levels of achievement

		Tanzania	Zambia	Targets
1	Number of companies involved in programme	35*	25	25
2	Number of companies surviving in 2003 (percentage of row 1)	25 71%	19 76%	 90%
3	Number of firms that had increasing turnover in recent years (Percentage of row 1)	10 29%	9 36%	 80%
4	Number of companies indicating increases in profitability (Percentage of row 1)	3 9%	7 28%	 80%

*There were 39 companies involved, but as we mentioned above, some partnerships involved several companies. One was the main partner, and the one most fully engaged in the programme. The others have been removed from this analysis.

What are the indications that a twinning relationship would be beneficial to the domestic companies. Is there any correlation between the depth and intensity of partnership on the one hand, and business development on the other hand? At a first glance, the evidence seems to point at a strong correlation between a twinning arrangement and business development (table 2.5). Whereas 75% of the companies with no partnership had decreasing turnover, 100% of those with lasting partnerships expanded. There is indeed a strong correlation between the partnerships and performance. However, a closer look will qualify this impression.

Two of the companies that appeared to have a lasting twinning relation in 2000 have gone out of business, and hence they are not included in the data in table 2.5. One of the surviving partnerships is Msemo Hotels and Tours. Though the company exists, the hotel building is under construction and will open in 2004. It is still a construction site, and has been so for almost 4 years. The company employs carpenters and subcontracted construction workers, but has not yet started the business it aims for. The twinning arrangement is between the owners and their own firm in Sweden. It may eventually bring profits and employment in a region much in need both of hotel and restaurant services and employment opportunities, but it has not happened yet.

Even if it may seem as if the twinning arrangements could predict a higher survival rate, this would be to confuse causes and effects. Some firms may survive in spite of the intervention, and others because the EDP has provided useful assistance. It is necessary to explore exactly what happened before any conclusions can be drawn about EDP's effectiveness.

Table 2.5. The nature of partnerships and business development.

Are the companies doing well?	Country	Contact established, but not developing	Partnership developingduring EDP	Partnership surviving up to 2003
Yes	Tanzania	3	4	4
	Zambia	1	5	2
No	Tanzania	13	4	–
	Zambia	4	11	–

Source; Company visits and interviews

Productivity, quality and business development

Two of the 21 companies that we visited in Tanzania and five of those visited in Zambia measure productivity. The others may have some vague feeling for how productivity relates to investment, employment and turnover, but not with the help of any precise measure. By and large, the companies that increase their turnover also employ more staff, which may suggest that the ratio between employees and production value is close to constant. Similarly, the companies that invested during the mid and late 1990s expanded their sales, and so it might seem as if the capital to output ratios have not changed much either. Even though vague, these indicators suggest that productivity has not changed much.

In the companies where turnover has gone down, we may assume lower capital productivity. But in those companies labour has been laid off, so the productivity of labour would again have remained almost constant. However, it is very difficult to say what the case really is when there is no reliable data. These comments should be understood as hypotheses and guesswork. Remember also that several of the firms sell services; hotel and tour operators, training providers, and media producers are not business areas where traditional industrial productivity measures make much sense.

One of the companies that actually did assess productivity was the carpentry ScanZa. Some years ago they had few incoming orders, but management kept most employees and weathered out the bad times. They did time studies of the operations, and when better times came, they were in a good position to develop competitive tenders. They could monitor changes in productivity and thus have a better sense of skills and training needs. The company used slack time to produce patterns, which again was an advantage when orders came. This had nothing to do with EDP. It was, and is, business and management competence which was there without any support from aid programmes. Both of the Dairy Farms Maplehurst and Bedrock in Zambia had good measurement and control systems of productivity and quality. They followed milk quality in detail every day according to the health regulations in the dairy business.

More companies are concerned with quality, but again, there are not many objective measures. Indications of customer preferences would be the best guide to whether the production, or the services, are of quality. Ironically, the service providers seem to be least aware of the need to pursue quality. But there are exception. As one example, Mawenzi Farm expanded rapidly and got many new clients. At first all of the staff were recruited locally in the Usambara mountains, but the owners saw that professional tourism development needed people with higher service orientation and more skills (for example in the restaurant). As it expanded, chefs and other key staff members were recruited from the tourist centres of Arusha and Moshi.

Employment and gender

As the background data in annex 2 shows, there is a great need to create employment opportunities in both Tanzania and Zambia. To what extent have the EDP's contributed to employment? Tables 2.6 and 2.7 present data at company level on employment. It is important to remember how different the companies are when we look at these data. To take an example, KC and Company is a conglomerate involved in numerous business ventures, among them running sugar estates, sugar factories (not refining though), trading , and they have the largest fleet of trucks in Tanzania. One of the EDP projects was to establish a link to export sugar to Sweden. Naturally this affected only a small part of KC operations; in the final end only one container of sugar was sold. The quotas imposed by the EU made (and make) it impossible to develop any production or trading volumes that could sustain a lasting commercial relationship. Even though KC has a large number of people employed, the EDP activities never created any additional employment, and as the partnership did not continue there was no further effect on employment.

Table 2.6. List of employment changes among surviving companies (Tanzania)

	Company	"Lasting" Partnership in 2000	Changes in employment	Total employment 2003	EDP related increase
1	Commercial Brothers	No	Increase	200 plus	–
2	John's Engineering	No	Increase	25	–
3	Kolla Hill	No	Increase	20	–
4	Tanzania Tea Blenders	No	Decrease	50 plus	–
5	Sindy Batik	No	Decrease	7	–
6	Jonny's Dairy farm	No	Increase	100 plus	–
7	Kibanda Arts	No	No change	10	–
8	Women Miners Association	No	–	250	–
9	KC and Company	No	Increase	300 plus	–
10	Utege Technical Enterprise	No	Increase	60	–
11	Keshawji Ramji Timber	No	Decrease	18	–
12	Chani Auto Garage	No	Decrease	50	–
13	Dabaga Veg & Fruit Canning	No	Increase	300	7
14	UKH Accountants and Auditors	Yes	Increase	12	12
15	Ruhinda & Company	No	Decrease	160	15
16	Scanza Co	No	Increase	20	–
17	Maneno Mengi/Mawenzi	Yes	Increase	15	15
18	Msemo Hotels and Tours	Yes	Increase	15	–
19	Africa Tours	No	Decrease	6	–
20	Zzoikos	No	Decrease	11	–
21	Infobridge	Yes	Increase	25	12

Source: Interviews and company visits

Dabaga Vegetable and Fruit Canning is another example of the intricacy of analysing the impact of EDP and twinning. Dabaga invested in plastic bottle production, to get this crucial packaging material at lower cost, more reliable deliveries and higher quality. A Swedish contact was established with the help of EDP, and the partner, together with WP International, helped Dabaga's manager locate a source of supply, have access to credit, buy and install the machinery. It is now in place and employs 7 people. The whole company has more than 300 employees, but would have had as many employed irrespective of the programme.

The companies that were in various ways involved in the EDP together have more 2500 employees, but the amount of new jobs created that are linked to the EDP amounts to some 135 jobs. That is a high count, as it is very likely that for example Msemo Hotels and Tours and Mawenzi Farm had operated as they do today without EDP. The manager of Venus Publications said that thanks to the Heidelberg printing equipment they got through EDP they could employ another 17 persons. There is also one example of negative impact on employment for one Zambian company. Once a promising mining company with about 130 employees, Mwaca Gemstones has now decreased to around 20 mostly due to a poor working partnership with their Swedish partner, according to the owners. *"We thought that only South African companies had that kind of low moral. We didn't expect being swindled from a Swedish partner"*

Table 2.7. List of surviving companies and their business development (Zambia)

	Company	"Lasting" Partnership in 2003	Changes in employment	Total employment 2003	EDP related change
1	Dial a Cab	No	High increase	35	–
2	Customized Clearing	No	Slight decrease	87	–
3	Bedrock	No	No change	25	2
4	Rivonia	No	High increase	100	20
5	Cleanfast	No	High increase	42	5
6	Maplehurst	No	High increase	35	–
7	Venus	No	High increase	60	17
8	Ace Auto	No	Large decrease	23	–
9	Setrec Steel and Wood Processing	No	Large decrease	60	–
10	Mwaca Gemstone and Mining	No	Large decrease	20	–50
11	Glaster Trading	No	Large decrease	3	Nil
12	Cutline	No	Slight decrease	10	Nil
13	Afe	No	Large decrease	44	Nil
14	Freightlink Business Service	No	Large decrease	4	Nil
15	Chankwaka	No	Slight increase	160	Nil
16	Chirundu	No	High increase	85	30
17	Shonga Steel	No	Large decrease	70	Nil
18	Lufwanyama Enterprises	Yes	High increase	60	20
19	Mansi Water	Yes	High increase	85	30

Source: Interviews and company visits

Let us now also look at the type of employment created and whether there is any gender bias in the programme. Table 2.8 summarises data on gender aspects in Tanzania. First we have looked at the gender of the entrepreneurs. It is rather strange that there was only one female entrepreneur associated with the company. It is surprising for two reasons. First, because promoting gender equity is an overall objective of Swedish development cooperation, and an explicit effort to promote female entrepreneurship would be expected. Second, there are many female entrepreneurs in Tanzania, and most evidence suggests that women do better as managers than do men. So if Bolden Contech – later WP – had been concerned about results, it would have made good sense to seek out and encourage female entrepreneurs. Perhaps they would then have had more than four examples of lasting partnerships to show after five years work.

Whereas it is regrettable that only one female entrepreneur was associated with the programme, it is more satisfactory that half of the new jobs have led to the employment of women. In addition, we have the case of the Tanzania Women Miners Association. Although not a firm, it is expected to take care of the interests of women, and it has had some benefits from the EDP.

The EDP in Zambia had more female entrepreneurs. Three of the Zambian firms were owned and managed by women, and in another two women were strong partners in the boards and management. One of these companies has closed operations, and one has considerable problems, but the other three are among the most successful companies in the group. It has not been possible to analyse the total employment figures in Zambia, as the companies are larger, more reliant on temporary labour (which forms a much larger share of employment than in Tanzania), and more rapid fluctuation.

Table 2.8. Gender aspects of EDP in Tanzania

	Company	Gender of owner	Total employment 2003	Female employment 2003	EDP related increase	…of which female
1	Commercial Brothers	Male	200 plus	Few	nil	–
2	John's Engineering	male	25	None	nil	–
3	Kolla Hill	male	20	15	nil	–
4	Tanzania Tea Blenders	Male	50 plus	Mixed	nil	–
5	Sindy Batik	Female	7	4	nil	–
6	Tommy's Dairy Farm	Male	100 plus	Mixed	nil	–
7	Kibanda Arts	11 men, one woman	10	1	nil	–
8	Tanzania Women Miners Association	250 women	250	250	nil	–
9	KC Company	Male	300 plus	Few	nil	–
10	Utege Technical Enterprise	Male	60	Few	nil	–
11	Keshwaji Ramji Timber	Male	18	Few	nil	–
12	Chani Auto Garage	Male	50	Few	nil	–
13	Dabaga Veg & Fruit Canning	Male	300	Majority	7	7
14	UKH Accountants and Auditors	11 men and one woman	12	1	12	1
15	Ruhinda & Company	Male	160	10	15	15
16	Scanza Co	Male	20	3	nil	–
17	Maneno Mengi/Mawenzi	Male	15	8	7	7
18	Msemo Hotels and Tours	1 woman and one man				–
19	Africa Tours	Male	6	4	nil	–
20	Zzoikos	Male	11	7	nil	–
21	Infobridge	Male	25	Few	12	–

Source: Interviews and company visits

Programme impact at enterprise level

Irrespective of whether a partnership has been created or not, the assumption was that those companies that got involved in the EDPs would benefit in some way or the other. There are four ways in which this could have happened:

1. The process of meeting Boliden Contech , WP International and Hifab International staff, analysing the business together with them to see the results of the application of the Real Biz tool might lead to insights, understanding, new ideas, that would not have happened otherwise.
2. Participation in the training programmes could have transferred skills and competence that did not exist before, and which could have been useful, irrespective of what else has happened.
3. The access to capital through the loan agreements and the credit guarantees that were provided could have facilitated imports of samples, conduct of feasibility studies, and investments.
4. The relationship to the Swedish partner could help locate supplies, select suitable investment objects, or in other ways developed the business of the firms.

Tables 2.9 and 2.10 summarise our analysis of impact at company level. The tables only contain data for surviving companies. As we have not met all companies that went bankrupt, it could be misleading to present data on some of them. It seems as though the provision of training has had the highest impact. Most of the companies found the training programmes well run, conducive to the development of their business, and motivating for those who took part. There is only one example of negative impact. Africa Tours and Travel had one employee taking part in Improve Your Business and other management programmes. That staff member quit and set up a competing firm, taking some of the clients along. It had a negative impact on Africa Tours, but it is not necessarily a bad outcome of the training.

The application of Real Biz analytical tool (Tanzania only) has had the least impact. None of the firms ever mention it as a contribution. Many do not know what it was. Some of the entrepreneurs saw it as a device to screen applicants. A typical interview comment was "*we responded to a lot of questions and I gave them much information. Then it was taken away and processed in Sweden and we got it back later. That was the end of it.*" We get the impression that the tool is more useful in a commercially developed environment, as for example in Sweden. It is an abstract analysis, and the mapping exercise with numerical values on markets, competition, skills and competence, may be quite difficult to interpret and translate into strategic decision making.

Impact can be negative as well as positive. Time and money are scarce resources, and both have an opportunity cost. When an entrepreneur spends much time on an activity which never yields any benefits, his time – and possibly money – must be associated with an opportunity cost. Utege Technical Enterprise is a clear example. First the company lost money on installation of windows that never worked and were poorly adopted to Tanzanian housing conditions. Second, the efforts to introduce light weight concrete led to nothing, as the Swedish partner had limited practical experience, poor technical competence, and lacked commitment to see the project through. It is not correct to say there was no impact – in light of the reasoning above the impact was actually negative.

In Zambia a rather depressing kind of partnership occurred. Some Swedish partners seemed more interested in selling used equipment than to help develop the company – according to Zambian managers. The cleaning companies Glaster and Cathedin both had the RIMAB as counterpart. RIMAB convinced them that they needed certain machines and arranged to import these from Sweden. Both Glaster and Cathedin financed the used equipment with loans from Hifab. Some of the machines were in bad condition and especially Catheding got in trouble. The machines broke down and spare parts were missing. The Zambian manager tried to get in contact with RIMAB but as she said: "….*they never responded to the mail's and faxes. As soon as he sold us the equipment he lost his interest for us…".*

Table 2.9. Summary of impact from different components of EDP in Tanzania

	Company	Company review and assessment withReal Biz analytical tool	Participation in training programmes	Access to capital	Technology and management development through partnership
1	Commercial Brothers	No visible impact	No visible impact	No visible impact	Small negative impact
2	John's Engineering	No visible impact	No visible impact	No visible impact	No visible impact
3	Kolla Hill	No visible impact	Some impact	No visible impact	No visible impact
4	Tanzania Tea Blenders	No visible impact	No visible impact	No visible impact	Some impact
5	Sindy Batik	No visible impact	High impact	No visible impact	Some impact
6	Jonny's Dairy farm	No visible impact	No visible impact	No visible impact	Some impact
7	Kibanda Arts	No visible impact	Some impact	No visible impact	No visible impact
8	Women Mines Association	No visible impact	Some impact	No visible impact	No visible impact
9	KC Company	No visible impact	No visible impact	No visible impact	Some impact
10	Utege Technical Enterprise	No visible impact	Some impact	No visible impact	Negative impact
11	Keshwaji Ramji Timber	No visible impact	High impact	No visible impact	No visible impact
12	Chani Auto Garage	No visible impact	No visible impact	Small negative impact	Small negative impact
13	Dabaga Veg & Fruit Canning	No visible impact	High impact	High impact	High impact
14	UKH Accountants and Auditors	No visible impact	High impact	No visible impact	High impact
15	Ruhinda & Company	No visible impact	High impact	Small negative impact	High impact
16	Scanza Co	No visible impact	Some impact	No visible impact	High impact
17	Maneno Mengi/Mawenzi	No visible impact	Some impact	No visible impact	High impact
18	Msemo Hotels and Tours	No visible impact	–	No visible impact	High impact
19	Africa Tours	No visible impact	Negative impact	No visible impact	Some impact
20	Zzoikos	No visible impact	Some impact	No visible impact	No visible impact
21	Infobridge	No visible impact	Some impact	No visible impact	High impact

Source: Interviews and company visits
Rank order: High impac, Some impact, No visible impact. Small negative impact, High negative impact

Due to the machine problems Cathedin soon lost its contracts with the hotels and Insurance companies After some time the owner had to close down the company. Sending down equipment that didn't fit the Zambian partner was also the case for Setrec Steele & Wood and Pekal Business Systems. Pekal is also out of business and Glaster is in deep financial difficulties. These examples are discussed more in chapter 4.

When we now turn to analyse impact among the Zambian enterprises, it will be necessary to discuss impact in slightly different terms. First, Hifab International never applied any analytical tool such as Real Biz. On the other hand, it was more common that EDP provided consultancy services to the firms, rather than establishing a partnership. We thus distinguish between an impact that may have been created by a consultant, and the impact that may have been created by a partnership.

Table 2.10. Summary of impact from the different means of intervention in Zambia

	Company	Management training programmes	Consultation services	Access to capital for investment	Technology and management development through partnership
1	Dial a Cab	Some impact	–	High impact	–
2	Customized Clearing	–	–	–	–
3	Bedrock	No visible impact	Some impact	High impact	–
4	Rivonia	–	Some impact	Some impact	–
5	Cleanfast	Some impact	Some impact	High impact	–
6	Maplehurst	No visible impact	Some impact	–	–
7	Venus	No visible impact	High impact	High impact	–
8	Ace Auto	–	No visible impact	–	–
9	Setrec Steel and Wood Processing	–	No visible impact	No visible impact	Small negative impact
10	Mwaca Gemstone and Mining	Some impact	Negative impact	High negative impact	High negative impact
11	Glaster Trading	No visible impact	Some impact	High impact	–
12	Cutline	No visible impact	Some impact	High negative impact	High negative impact
13	Afe	No visible impact	–	High negative impact	High negative impact
14	Freightlink Business Service	No visible impact	–	–	No visible impact
15	Chankwaka	No visible impact	Some impact	High impact	High impact
16	Chirundu	–	–	High impact	Some impact
17	Shonga Steel	No visible impact	–	High negativet impact	High negative impact
18	Lufwanyama Enterprises	No visible impact	High impact	High impact	High impact
19	Mansi Water	High impact	High impact	High impact	High impact

Source: Interviews and company visits

Rank order: High impact, Some impact, No visible impact, Small negative impact, Negative impact

The difference between the two is that the consultant may come for a period of one or two weeks, provide technical services, help assess markets, or whatever, is paid and then that is the end of the relationship. This would of course not be understood as a partnership, which is a more lasting relationship with joint stakes in business development. Finally we analyse the impact that might arise from the provision of credit. In the Zambian case, this was more often used to purchase second-hand equipment in Sweden, whereas in Tanzania the equipment usually was purchased from other countries.

Several of the Zambian companies' state that the Management Training Program implemented by the consultant company COMPETE from Mozambique was very good. It was basic knowledge in business administration that was being taught in a down-to-earth way. The consultants were helpful and sometimes acted more as their partners than the Swedish counterparts. Another valuable source for the Zambian companies was Hifab's long-term personnel in Zambia (which came late, but was much appreciated once on the spot). After the coordinator was put in charge of the program and placed in Lusaka things were handled in a better and for the Zambian companies more helpful way. Some of the advice that the companies got however did not benefit their development. Afe Ldt took a loan and bought small mobile sawmills and tried to sell them to Zambian partners. It soon became evident that these sawmills were not suitable for the hard wood in Zambia as the mills were small and weak According to one entrepreneur, that should have been obvious already from the beginning.

If we return to table 2.5 it seems quite clear that there is a strong correlation again between the companies that are doing well, where one of the more intense forms of partnership were developed (even if it did not last), and the impact of the programme. The emphasis above is on correlation. The variables are hardly independent of each other, so we would not want to infer any causal links. The more interesting question is if the impact is high enough to merit the expenditure of almost SEK 20 million in Tanzania and 16 million in Zambia? And when the final calculation is done it is as necessary to add all the instances of positive impact, as it is to detract the instances of negative impact.

Chapter 3. Impact of the EDP

In this chapter we turn to an analysis of whether the higher level objectives of the EDPs have been reached. The programmes in both countries were meant to contribute to GDP growth, to have an impact on private sector development, and also to reduce poverty. The terms of reference for the evaluation specifically ask that we should analyse whether the programme has any effect on poverty alleviation. As we mentioned in the background section, there is a broad consensus in development economics that growth has an immediate and direct effect on poverty alleviation. Hence a programme that has a clear and visible impact on growth would also have an impact on poverty alleviation.

It is no doubt a methodological challenge to analyse whether programmes of the EDPs' nature could have an impact on macro-economic aggregates. First of all, growth is a complex phenomenon, which is caused by a number of social, political and economic factors. Not only do such clear economic factors as levels of investment and savings in society, foreign exchange regimes, size and financing of government budgets, etc. have a direct impact on growth prospects. Corruption, transaction costs, and social capital in a wider sense are also very important to understand growth.

Rather than looking for a direct causal link between the two EDP programmes and the macro-economic variables, we choose to analyse the problem with a three-pronged analytical approach.

1. First, we use a model, drawing on research and policy documents, of how and why a private business sector comes to thrive and expand

2. Second, we superimpose a model of the intervention of the EDPs on this model, and thereby we arrive at an estimate of to what extent the programmes may have had an impact on the sector

3. We relate the magnitude of change that has occurred at the micro-level to the development of macro-economic indicators. Through this, we arrive at a balanced assessment of whether it is possible to expect any correlation between the two levels.

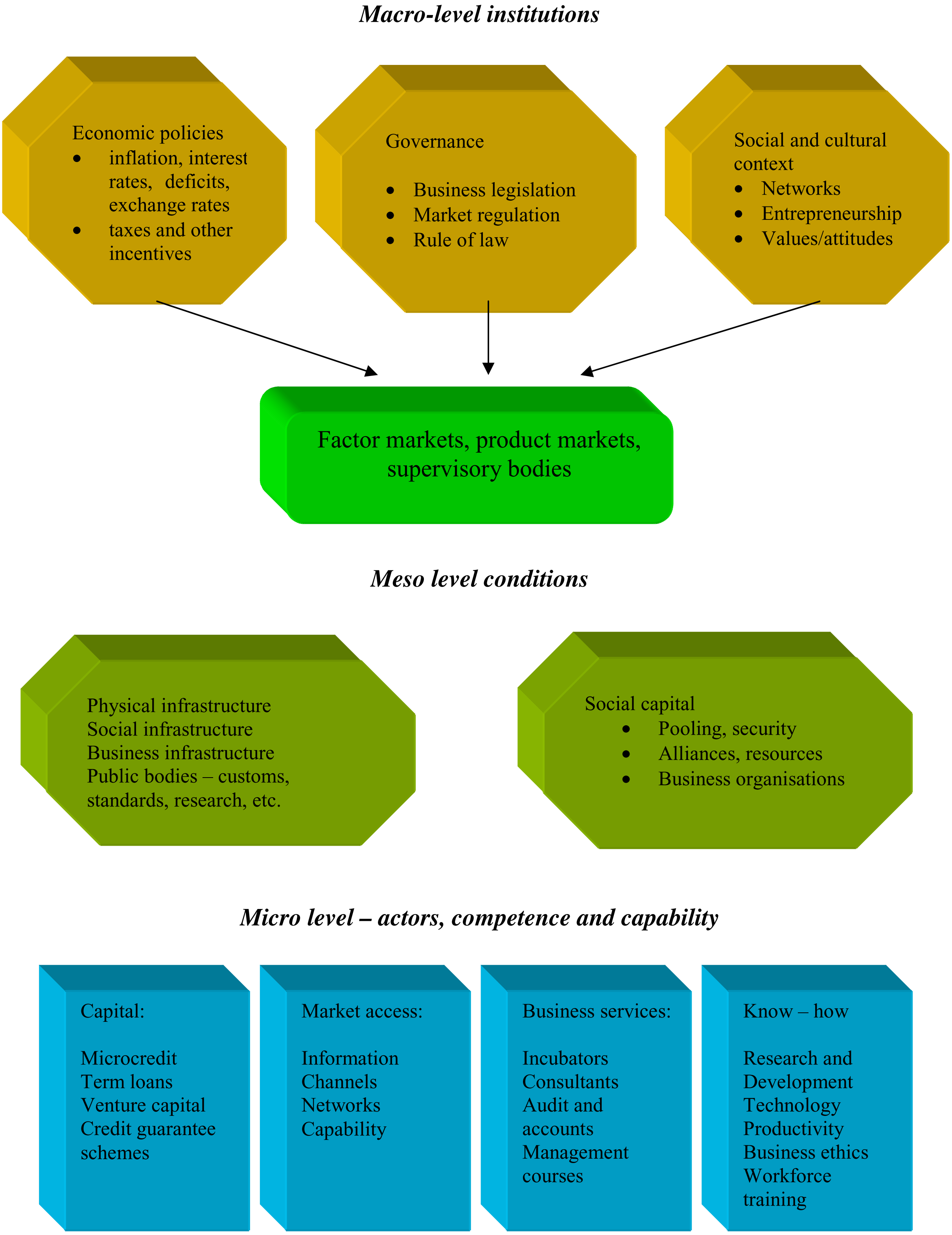
Conditions for a well-functioning private business sector.

A wide array of factors at the macro, meso and micro levels affect the development of the private business sector. In figure 3.1 we have outlined some of the major factors at each level. It is difficult to give justice to a large and complex field of research on some few pages, and it is not our purpose to review literature on the subject. What we need to do is to summarise the knowledge of what creators private sector development, and relate that to the EDP's and the Logical Framework Analysis used to plan these two programmes.

The model fits well with the empirical data that we collected in both Zambia and Tanzania. When we talked to the managers, and asked them about their most significant and difficult to solve problems, these often related to their interactions with the macro level. Taxation, and the problems involved in obtaining permissions, licenses, access to land, etc. were the most prominent obstacles to business development. Furthermore, the possibility to resolve conflicts by use of the legal system was at times mentioned as an issue.

In some areas there is a tradition of entrepreneurship which is still prominent. But in many areas, the values and attitudes that stimulate and support people to go into business are not yet existing.

Figure 3.1 Factors that affect the development of the private business sector



Hence the social capital is weak. Security is an issue in many circumstances, and we saw how repeated thefts was actually the main factor why some companies did not perform well.

The economic policies have a crippling effect on the private sector; exchange rates fluctuate and may at times discourage exports. We must also mention the trade barriers of industrialised countries; it is not only the harmful policies of developing countries, but also those of industrialised countries that hamper the development of the private sector. Furthermore, while inflation seems to be brought under control in Tanzania, it is still at a level which severely constrains business in Zambia.

There is a difference between the two countries in that there is an emerging infrastructure of business organisations in Tanzania, chambers of commerce are lively and growing, there is a confederation of industries carving out a niche for itself, as well as parastatal institutions providing services. In Zambia these organisations are not as many, and they do not seem to develop as vigorously as in Tanzania.

The physical infrastructure is weak, but it varies between different geographical areas. The EDP in Tanzania started with an emphasis on three towns along the southern highway. Even if these are connected to a major road, the physical infrastructure in these small towns, with less dependable energy supplies, lower quality of feeder roads, undeveloped telecommunication services (although it is rapidly changing for the better) contributed to make it difficult to work there, and to find companies that could get engaged in the cooperation.

The EDPs' level of intervention

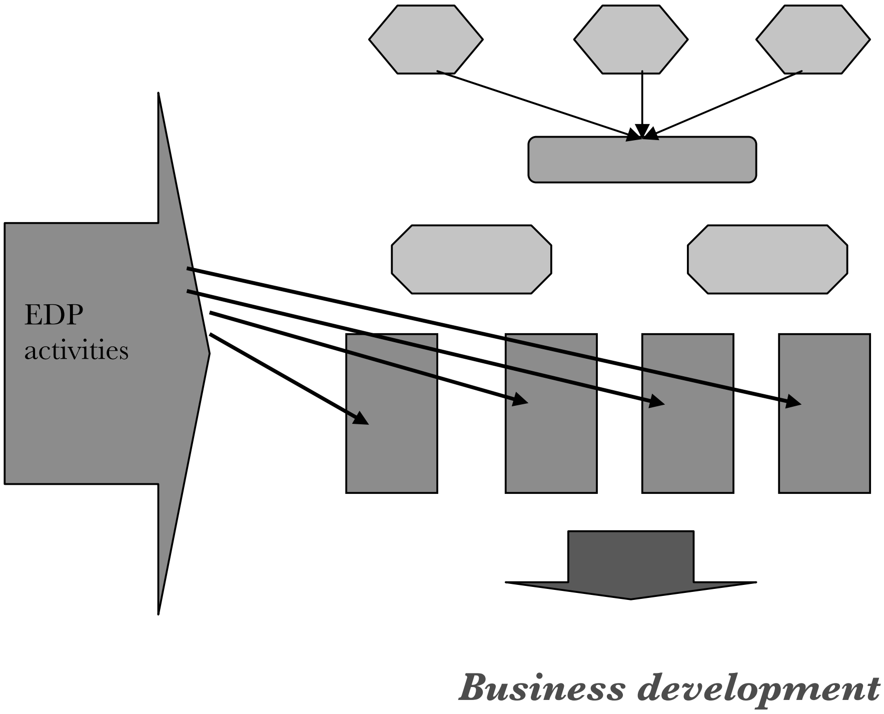
As we have seen in the previous chapter, the services provided by the EDP's were confined to the micro-level. The programmes aimed to serve the companies with access to markets, access to competence and skills, and access to credit. When we look at the total factors that could be expected to promote private sector development, we thus find that the programmes only address a few of them. Hence, it would not be realistic to expect an impact on the sector as a whole. This knowledge is not new. Our summary is based on a Sida evaluation dated 2001 (Sida Evaluation Report 01/14), but the knowledge as such has been available in academic as well as popularised research for many years.

The figure below maps out the areas where the EDPs, if successfully implemented, could have had an impact on private sector development. As we have seen, the training programmes were successful, but other parts of the programme had a lower impact – if not negative. Furthermore, in order to have an effect on private sector development, a programme would be more likely to reach its objectives if:

1. they are conceived of as multisectoral and multidisciplinary, and integrated with other interventions;
2. if they are coordinated with other donors, where it is necessary to make sure that the interventions are in harmony and work towards the same objectives;
3. and when they are implemented in close cooperation and dialogue with partners in developing countries, ensuring ownership and sustainability of the efforts.

The EDPs in Tanzania and Zambia lacked these characteristics. The programmes were too small to have an impact on the highest level objectives, and even if successfully implemented (targets reached), they would have been too isolated, too limited in scope, and too restricted to a particular mode (partnerships/twinning) of affecting the micro level to have an lasting impact on the sector.

Figure 3.2 Areas of EDP intervention:



Production and employment

In annex 2 we describe the economic environment in Tanzania and Zambia. The private sector is significant and has been growing rapidly in both countries. But manufacturing industry is marginal, contributing less than 10% of the GDP, and providing a small share of employment opportunities.

The labour force in Tanzania is growing by some 600 000 persons per year, but as we saw the new jobs created through the EDPs amount to a total of around 60 in that country, and some 70 in Zambia. The programmes have a very marginal impact on the availability of employment opportunities. If we look at all the companies affected by the programme, they provide around some 1000 jobs, and their total turnover is between USD 1 and 3 million in each country.

The turnover of the companies engaged in the programme could also be put in contrast to the size of the GDP. In 2002, Tanzania's GDP amounted to around USD 900 million. The turnover from the companies involved in the programme was around USD 2 million, which suggests that their share of total manufacturing value added is less than one percent. Yet it is encouraging to find that the changes among the companies' turnover appears to have been growing by more than what the GDP as such has been growing (that is, by more than 6% annually in recent years).

The growth that has occurred at the national level is accomplished by successful firms such as Infobridge and Dabaga in Tanzania, Manza Water and Lufwanyama Enterprises in Zambia, but also of thousands of other companies. The total changes in turnover from the successful EDP companies all lie well within the margin of error of the national statistics. If the companies had not existed, the aggregate statistics on growth, poverty alleviation, and sector development, had almost certainly been the same.

The assessment needs to take account of the linkage effects created by the industries. As we are not talking about that many projects that have matured and that show increases in company indicators, it is possible to summarise the effects. Actually there are few of the projects that have strong economic linkages, either backward or forward within the industrial sector. Most of the Zambian firms are food-processing, and they have strong backward linkages to agriculture, but their output is a consumer product, so there are no forward linkages to economic activities.

The Tanzanian companies are often found in services, such as hotels, tourism, as well as information services (films, web design, geographical information systems). The latter two have strong forward linkages and give rise to value added in a number of other sectors. Tourism and the like also have backward linkages to several industries such as construction, carpentries, food-processing, transports, and others. But even though the links are there, the overall size is relatively insignificant. Not more than some 20–30% of annual turnover would be linkage effects, and thus the totals would not exceed USD 500 000. Very little of this can be attributed to the EDP, in all likelihood most would have been created by the companies even without the programmes.

Cost-effectiveness

The total expenditures of the EDP in Tanzania were SEK 19.4 million, and the total expenditures on the EDP in Zambia were SEK 16.7 million. How can these expenditures be set in relation to effects – cost-effectiveness being a ratio between the costs incurred in a programme and the effects that were produced? We have seen a number of different effects in the programme. It would be possible to:

1. Relate the expenditure of SEK 36.1 million to the target objectives of creating lasting partnerships. In that case, it has cost 36 million to create 6 lasting partnerships, which is what remains. This implies an expenditure of almost SEK 6 million per partnership, which appears to be excessively high. But we know that all partnerships actually existed before EDP, so they cannot be attributed to the programmes. These have facilitated and encouraged future cooperation, but then at a very high cost.
2. Relate the expenditure of SEK 36 million to the creation of employment opportunities. As we have seen above, a total of 134 new jobs can be attributed to the programme (although it is likely that the EDP is but one of many factors that have enabled the firms to expand). This suggests a total cost per job of around SEK 300 000, which is again very high. The annual income for those employed would not exceed SEK 3 000 per year, hence the investment in each job could have kept the persons with a salary for 100 years, if provided as a direct grant (which is of course not a feasible alternative, but mentioned by way of illustrating the magnitude of subsidy).
3. Relate the 36 million SEK to the business performance of companies. We have found that around 10 companies in each country have improved business, and the efforts of the EDP's have played a part in this. There are other factors too, but the EDPs have also been of use. This implies a cost of roughly 1.8 million per company that has seen an improved performance. This amount exceeds by far the increase in turnover generated by each company, and hence also points to a low effectiveness in the use of funds.

We recognise that any assessment of cost effectiveness needs to relate to all the benefits created through the programme. We have chosen company performance, employment and lasting twinning relations as the foremost candidates, as these are the ones mentioned as the objectives of the programmes. However, in the final assessment it is also necessary to weigh in the negative aspects.

The irresponsible and short-term profit-seeking behaviour of some Swedish companies has incurred substantial losses among – in particular – Zambian companies. There are companies that have gone bankrupt as an immediate effect of their involvement in the programme, and others struggle with the ill-advised investments. If the negative impact is deducted from the positive impact generated by the 6 lasting partnerships, plus the other 14 companies that do well, even though the partnerships did not last, the overall, net effect could be positive even if very small. There are many projects and programmes in development cooperation that generate a much better return on the investment than that.

Chapter 4. Conclusions

There were companies associated with the programmes that have developed nicely over the past couple of years. Some of them were in partnerships with Swedish companies, but others have done well without any such partnership. The EDPs have probably contributed to the successful development in those companies, but there are other factors that have contributed: the partnerships were already formed before EDP entered the scene, other aid programmes have also provided resources (South development, Start Syd, Norsad, CDE, and others). They have good management, labour, technology and markets.

But to offset those positive results and useful impact, there are many partnerships that never took off, and there were interventions that have not benefited the companies involved. What are the reasons, and what lessons can be learned from the process? These are the questions that we will address in this chapter.

Conceptualising the programmes

The two EDPs are guided by Logical Framework Analyses that are very similar. These specify targets in terms of lasting partnerships, twinning relationships, and the like. But the concepts of twinning and partnership are only vaguely defined. They rest on a common-sense understanding of a process of cooperation: it should be durable and long-lasting engagements between a firm in Tanzania or Zambia, and one in Sweden, and these relations should be mutually beneficial. The second part of the definition is problematic, because here the definition actually points to a criteria of success. Can it be a twinning arrangement even if it is not beneficial to both partners? In theory yes (though not according to the definition), but in practice one partner would probably leave if there is no advantage in the relationship.

The question is if partnership, as used in the Zambian programme, should be understood as synonymous to twinning, as understood in the Tanzanian programme? We have distinguished the relationship between the firms on a scale going from a simple contact to a more intensified cooperation. But we also see formal arrangement (as in Mwaca Gemstones) where the joint venture is a formality, and where there is no real relation between the partners (they do not even communicate with each other). We also have partnerships where there is no formal agreement, but where the relationship has lasted for long, and is indeed mutually beneficial (as in Mtemo Hotels and Tours). In the latter case there is no joint ownership, but for a variety of personal and professional reasons the two organisations are closely linked.

When we read progress and final reports from the EDPs, we find that the words partnership and twinning are used loosely and to describe very different relations between companies. This may have given flexibility to programme management to tailor-make support to different circumstances, but it has also meant that some very shallow and short-lasting relations between companies are described with words that have quite different connotations.

Consequently it must have been quite difficult for Sida and reference groups to follow the actual progress of the programmes, and it may even have been difficult for the managing firms to adequately describe and account for their activities. When Hifab International in their final report claims that 25 partnerships have been established, this really begs the question "what do you mean with a partnership?" . In our opinion this terms signifies a different quality to the relation between companies than we saw in most cases in Zambia, and it would have been useful if a tight definition of the actual type of relationship had been used – and also one that does not confuse the nature of the process and the outcome of the process in the same definition.

The project objectives were long term. As we have seen, the aim was to contribute to growth and private sector development. This is of course the overall reason for any programme of this nature, but it is a very long link between the activities, outputs and outcomes on the one hand, and these objectives on the other hand. It must be possible to distinguish between an overriding purpose and more specific objectives. Even if objectives do not necessarily have to have a tight causal relationship to activities, it is useful for purposes of accountability and learning if they are more closely related.

Dialogue and presence

Both EDPs built on lessons learnt in previous aid programmes, namely that it had been inefficient and cumbersome to work through local government institutions to support the private sector and SMEs. Hence these programmes built on letting a Swedish consulting firm manage the program, with a task to establish links, and then let the cooperating partners form the nature of the relationship according to their interests.

There was thus little dialogue between any local organisation with knowledge about the sector, companies and development constraints. Such a dialogue partner could have clarified and indeed rectified some of the basic assumptions around the programme (how you search for partner companies, whom you select, and how they could be screened for the programme). Furthermore, when the programmes started running into trouble, as for example on how to operate credit schemes, etc. they never found workable solutions, and never had any local partner to help solve such problems.

The final reports from Hifab International and WP International describe the local office arrangements. The programme coordinators/managers were in both cases based in Sweden, and travelled to the countries. The offices in Lusaka and Dar-es-Salaam were manned by competent local staff members, but it appears as if the key decision making power was still kept with programme management in Sweden. Hence there was not as strong a local management presence as would have been needed to monitor the development of partnerships.

In Zambia, the Swedish and local companies were let go, once the relationship was established. But in Tanzania, Boliden Contech and later WP had a closer contact with the companies and followed their business development. This may explain why there has not been as many examples of really mismanaged projects in Tanzania as in Zambia, and why the negative impact in Tanzania is low, whereas in Zambia it is dramatic in some firms. The situation in Zambia did improve when a local coordinator was sent out from Sweden. The companies that have developed well (see chapter 2) all point to the improved management that they saw, and the assistance they got. However, this came towards the end of the project. The staffing solution was beneficial to the companies that benefited from the programme, but came to late – and perhaps with too limited a mandate – to reverse the negative development in others.

There is also a question of what dialogue occurred between partners. In six cases (all in Zambia) decisions on joint ventures were taken without sufficient consultation of local partners; loans were taken, equipment chosen purchased and shipped, without their active and informed participation. We have found examples of well working partnerships and mutually respectful relations. But there are cases where the persons sent out from the Swedish firms appear to have lacked in social skills, cross-cultural communication, as well as in ordinary business ethics. Perhaps the most surprising here is that neither Hifab International, nor Sida, nor the programme reference group detected the problem and acted to solve it.

Selection of companies

It is interesting that none of the successful partnerships in Zambia or Tanzania were created by the EDP. These firms, or the individuals that carry the relationship, knew each other from before and had established links.. But where the intended process of selecting firms were followed (based on invitations – applications – selection – analysis – matchmaking), it often failed to work. We could easily make a list of Tanzanian and Zambian firms in the EDPs that are well suited for the programme; actually we would say that 90% of them have the appropriate qualifications in terms of managerial skills, track record of performance and outlook for the future. There is no difference here between Tanzania and Zambia.

But there is a difference when it comes to selecting firms in Sweden. In the case of EDP in Zambia, the same group of Swedish companies appear as partners to several of the Zambian companies, and in all cases the results are the same:

- No viable business idea
- Lack of dialogue with Zambian partners
- Rapid approval of loans to Zambian companies, and funds directly used to purchase used equipment
- Zambian firms receive equipment but no technological backstopping
- Equipment breaks down more or less immediately
- Zambian firms get no further advice, no replies to correspondence, etc.
- Zambian firms have to serve loans
- Zambian firms go bankrupt or end up in deep trouble

It is surprising that the same small group of actors have been able to apply this "business idea" repeatedly, without Hifab International or anybody else noting it or taking action. We appreciate that it may have been difficult to find Swedish firms with a long-lasting interest in Zambia, and we also appreciate that the firms may want a fairly rapid return on an investment. But Hifab International won the project management assignment through open competitive bidding, fully well knowing that they during a process of three years had to develop 25 partnerships, and in their tender described how it would be done and why they were the best firm to deliver results. Hifab International is a large and well-known consulting firm with many years of experience in development work. To put it bluntly, they said they could do it in their tender proposal, and it is not an acceptable excuse afterwards when they failed to say it was difficult.

WP International has also had problems in finding suitable Swedish partners, but as the Swedish firms never were involved with more than one partner, the potential harm was limited. Nor did the Swedish firms get involved in selling used equipment, they helped the Tanzanian firms locate equipment from other suppliers, and gave advise on how to evaluate what the firms were buying (although in the case of Chania Auto Garages with poor results). In future programmes (if any), it is important to pay more attention to the selection of Swedish partners; to assess their interests, their competence and professionalism, and not least, their business ethics.

Yet another difference between Tanzania and Zambia seems to be that WP International has worked more closely with other aid programmes. It makes it more difficult for us as evaluators to analyse causal effects, but that is not an end in itself. As an example, WP International worked with a programme to promote organically grown cash crops (also financed by Sida), and facilitated some of the links on that programme (Export Promotion of Organic Products from Africa). It was not any twinning arrangment, and there were of course consulting firms involved on that programme too. However, it is to the credit of the EDP in Tanzania that its programme management has worked with others and contributed to the achievement of objectives on those programmes.

Follow-up and control

Yet a difference between the two EDPs was the extent to which the partnerships, once a contact was established, were encouraged to proceed on their own. Hifab International apparently had very limited follow-up systems, and left the companies to manage their own business. In Tanzania, WP International followed the companies more closely. The approach taken by WP International appears to have been more realistic and more in line with the responsibilities expected from programme management. The idea of the business-to-business approach in the EDPs does suggest a rather limited role for project management. But the experience here suggests that this may not be realistic. Fairly large amounts of public money were spent without the control from programme management that could be expected.

In addition, there were business ideas such as the light weight concrete, winco windows, importation of tractors, and exports of sugar to Sweden, that should probably have been killed immediately. EU sugar quotas are well-known, and it should not come as a surprise that it was not possible to circumvent them. Importation of tractors require capital, human resources, spare parts and an organisation for maintenance and repairs – all of which were not present. It would not take a major feasibility study to reveal that such conditions were not at hand.

Yet another lesson is that more substantive technological and commercial competence is necessary at the programme management level, and that competence needs to be applied throughout the development of the programme, and that job must be done, those skills applied, on the site – not from Sweden.

Roles and responsibilities

During the past decade there was a debate on the role of aid agencies, and for many reasons Sida sought to find ways of developing, managing and controlling projects and programmes that were more rational than in the past. In particular, there was a need to find ways of delegating responsibility, and to assume a more strategic role in regard of programme implementation. This may have had consequences for the EDPs.

1. Sida delegated authority for a rather long and complex program and appears to have taken a role of "strategic control". The main instruments to control the programmes were:
   a. project documents, logical framework analysis, their targets and indicators of achievement,
   b. progress reports to monitor the performance of the partnerships that were developed and the activities of programme management.,
   c. …and formation of reference groups.
2. One way of having a more substantive and close supervision was to create reference groups for both programs. However, reference groups that have no decision-making mandate may find themselves with limited possibility to affect events, even if they see implementation problems emerging.

3. There was an assumption that business-to-business relations and commercial interests would put the partners in an equal relationship. However, it was still often an asymmetrical relationship, with one partner more dependent on the relationship than the other. In the successful partnerships, the firms tend to be similar in competence, educational background, experience, etc (as for example in HanTan, Infobridge, Mansa Water, Maweni Farm).

We must emphasise that it was not part of our task to analyse Sida's roles and responsibilities, nor the reference group arrangement. But when we look for explanations on why the processes enfolded as they did, these are questions that must be asked. If our hypotheses have some relevance they imply that there are basic assumptions around the programmes that need to be reconsidered, and perhaps there are other programmes that rest on similar assumptions.

A final word

Evaluations tend to spend more words on things that do not work than on things that are useful and well-functioning. Our task has been to analyse the achievements of the EDPs in relation to targets that in retrospect must be seen as unrealistic. This process may overshadow the achievements accomplished by the firms that are developing well. There are many examples of companies where management and employees increase turnover and profits, improve productivity and quality, as for example in Scanza, Infobridge, Maweni Farm, Dabaga Fruit and Vegetable Canning, Msemo Hotels and Tours, Bedrock, Clean Fast, Chankwakwa, Rivonia, Venus Prinring, Maplehurst Farm, and others. They deserve credit for their achievements in a harsh business environment, and for the contributions they make to employment, growth and private sector development.

Annex 1.
Terms of reference

EVALUATION OF ENTERPRISE DEVELOPMENT PROGRAMMES IN TANZANIA AND ZAMBIA

1. Background

The Enterprise Development Programmes in Tanzania and Zambia aimed at improving the business of local small and medium sized enterprises, to a large extent through partnership arrangements with Swedish counterpart enterprises. The Programmes were run from the end of 1995 to the end of 2000, almost exactly five years. 19.4 MSEK were spent for the Tanzania Programme by the administrating consulting company Boliden Contech AB. 16.7 MSEK were spent for the Zambian Programme by Hifab International AB. An Advisory Group was set up with participation from external consultants, Swedfund, Boliden/Hifab and Sida to overlook and advise in the implementation of the Programmes.

2. Purpose and Scope of the Evaluation

The purpose of this evaluation is to assess to what extent the assisted enterprises have changed their businesses: turnover, market share, profit, productivity, quality etc. Purposely, the evaluation has been delayed a few years to see if the enterprises have matured and been able to grow on their own or have run into difficulties.

The purpose is further to assess impact in the form of economic growth, increased employment, tax revenues for Government and reduction of poverty.

3. The Assignment (issues to be covered in the evaluation)

The evaluation consultant shall assess the achievements of the Programmes against its objectives and indicators of achievement as identified in the Logical Framework Analyses **(attached).**

There are two levels of the evaluation of each Programme: i) how the individual enterprises have developed and ii) aggregate figures providing for growth and poverty reduction in a macro perspective.

On the enterprise level the evaluation shall among other things address the following issues:

1. The number of assisted enterprises, the intense of grant or subsidised services provided, number of managers and staff affected;
2. A valuation of the inputs/services provided to each enterprise by the administering Consultancy firm;
3. Some graphic illustration to the developments of the individual local enterprises over the period 1996-2003.
4. Have partnerships with Swedish counterparts been helpful and cost effective or have these rather been obstacles for the development of the local enterprises?

5. Have the Programmes been overall cost effective?
6. To what extent have external factors in the national business environment contributed to a positive/negative development of the programmes?

On the macro level the evaluation shall among other things address the following issues:

7. To what extent have the Programmes contributed to economic growth in Tanzania and Zambia?
8. Have there been any net effect on job creation (number of new jobs) as a result of the EDPs?
9. Is it possible to say anything on effects on poverty reduction?

Administration

10. Similarities and differences in approach to solve the tasks, any difference in efficiency and effectiveness?

4. Methodology, Evaluation Team and Time Schedule

The evaluation and appraisal shall be implemented according to the following phases.

Phase I, Preparation

The consultant shall prepare for field work in Tanzania and Zambia by studying background documents in Sida archives and reports on the implementation of the Programmes. Reference is specifically made to the following:

a) Inception Reports from Boliden Contech AB and Hifab International AB;
b) There are six files for each Programme at INEC/PSD Division incl Minutes from meetings of the Advisory Group;
c) Final Reports from Boliden Contech AB and Hifab International AB;
d) "Företagareprogrammen i Tanzania och Zambia – Slutrapport från Rådgivande Grupperna för EDP, 2001-12.

Contacts can be opened to interview representatives of the administrating Swedish consultancy firms and possibly also to Swedish enterprises involved in the Programmes.

Phase II, Field work

The Consultant shall visit Tanzania and Zambia in order to assess, interview and verify developments of all 20-25 enterprises in Tanzania and Zambia, which have been actively invoved in the Programmes. The Consultant should offer debriefings at the end of the field work to the Swedish Embassies in Tanzania and Zambia.

Phase III Analysis and Draft reporting

The Consultant shall develop a draft report based on the findings in the field with direct reference to the defined indicators of achievement established in the Logical Framework Analyses and guidance above.

The draft report shall be distributed to Sida/INEC/PSD, to the embassies in Dar es Salaam and Lusaka and to Boliden/WP and Hifab International. Comments shall be invited to these parties within 2–3 weeks.

Phase IV Final report

The consultant shall present his findings and conclusions in a final report to Sida´s office in Stockholm.

5. Reporting

The evaluation report shall be written in English and should not exceed 20 pages, excluding annexes. Format and outline of the report shall follow the guidelines in Sida Evaluation Report – a Standardised Format (see Annex 2). 15 copies of the final report shall be submitted to Sida no later than 2003-10-15. Subject to decision by Sida, the report will be published and distributed as a publication within the Sida Evaluations series. The evaluation report shall be written in Word for Windows (or in a compatible format) and should be presented in a way that enables publication without further editing.

Annex 2. Growth and development issues in Tanzania and Zambia

In this annex we will make a brief review of the contexts in which they were implemented. The EDPs were expected to contribute to growth and private sector development, but in fact the relation is probably the other way around. Enterprises will be more profitable, promote more employment and generate higher value added within an overall context of growth, than they would when the economy as a whole is stagnant. The purpose of this chapter is to briefly describe the state of the Tanzanian and Zambian economies during the times the projects were implemented, as well as in the years thereafter – when the companies were expected to continue developing without an aid programme to support them.

Growth and development issues

In his address to parliament[1] in June 2003, the Minister of State of the Presidents Office, Planning and privatisation, Dr. Kigoda, said that "…*we believe that the attainment of sustained higher growth and macro-economic stability is one of the main prerequisites in meeting the challenge of poverty alleviation effectively. We are aware that this is a necessary condition, but it is not sufficient to improve the lives of all Tanzanians immediately. As it will be noted … we have not only registered good performance in the growth of Gross Domestic product but also that there was notable growth in all sectors.*" Table 2.1 below illustrates the point, and it is indeed quite clear that many indicators of Tanzania's economy look better in 2002 than they did in 1995.

Among the most significant disincentives for economic development are high inflation and an overvalued exchange rate[2]. These contribute to low levels of investment and slow development of foreign trade. As the table shows, these indicators were not favourable in 1995, but they have improved. There is a small, but still positive, development of foreign trade. Tanzania's merchandise exports grew by almost 20%. This is relatively little by way of annual averages, but it is an improvement over past decades. Traditional agricultural exports were to a large extent substituted by non-traditional exports from food-processing industries, the mining sector, and manufactured goods.

In the beginning of the period, GDP growth was marginal. Given that Tanzania has an average annual population growth of 2.4%, the per capita growth was less than 1%. However, by 2002 Tanzania attained an annual per capita growth of 3.8%. These changes in the macro-economic climate made Tanzania a more conducive environment to work in than it was in 1995. As we will see, this has obvious consequences for a programme of EDP's nature. In June 2003 the Tanzanian GDP was calculated to TSH 9,493 billion (current market price), and it was projected to grow by 6.6% up to 2004. This is higher than any time since the late 1970s, and could indicate that Tanzania has finally left many of the policies and practices behind that for three decades have reduced growth in the country.

[1] Speech by the Minister of State, President's Office, Planning and Privatisation, Hon.Dr. Abdallah Omari Kigoda (MP), presenting to the National Assembly the Economic Survey for the Medium Term Plan and Expenditure Framework for 2003/04 – 2005/06. The Government Printer, Dar-es-Salaam, 2003.

[2] William Easterly, The Elusive Quest for Growth, MIT Press, Boston, 2002

The level of investment has not changed much though, and is in fact somewhat lower in 2001 than it was in 1995, and definitely below a level that would accelerate economic growth. In 2002 the manufacturing sector attracted more foreign investors than did other sectors, and a total of 103 projects worth around USD 190 million were approved by the Tanzania Investment Centre. If and when implemented, these projects are expected to generate around 16 000 new jobs. Compared to the need to create employment opportunities, these figures are not encouraging. But it should be noted that the private sector now is the main economic actor, representing some 78% of total investment (Mbilinyi, 2001).

Table1. Trends in selected Macroeconomic indicators

Indicator	1995	1996	1997	1998	1999	2000	2001	2002
Real GDP growth (%)	3.6	4.2	3.3	4.0	4.7	4.9	5.7	6.2
Inflation (%) Annual average	27.1	21.0	16.1	12.9	7.8	6.0	5.2	4.5
Exchange rate Tshs/USD Annual average	574	580	612	664	744	808	876	978
Investment/GDP ratio (%)	19.7	16.5	14.7	16.0	15.4	17.5	17.2	–

Source: Speech by the Minister of State, President's Office, Planning and Privatisation, Hon.Dr. Abdallah Omari Kigoda (MP), presenting to the National Assembly the Economic Survey for the Medium Term Plan and Expenditure Framework for 2003/04 – 2005/06. The Government Printer, Dar-es-Salaam, 2003

So, the question is why investments do not increase more rapidly? Private sector investments could be expected to be influenced by the country's openness to trade. Openness to trade promotes competition, thereby reducing monopolies and increasing quality and customer care. It may also encourage technological innovations and improvements. Out of a list of almost 100 economies, Tanzania ranks 25th highest with an average import tariff just under 18% (Campenhout, 2002)[3]. The development of the private sector could also be expected to be influenced by quality of the country's institutional environment. Keefer and Knack (1994) and Barro (1996) have developed an index of institutional quality, consisting of an average of 5 sub-indexes. These are:

- The rule of law index, which reflects the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes.
- The bureaucratic quality index which measures autonomy from political pressure and strength and expertise to govern without drastic changes in policy or interruptions in government services.
- The corruption in government index measures whether illegal payments are generally expected throughout the government, in the form of bribes, connected with import and export licenses, exchange controls, tax assessments, police protection or loans.
- The risk of expropriation index measures high risk of outright confiscation or forced nationalisation.
- The government repudiation of contract index measures the risk of a modification in a contract taking the form of a repudiation, postponement or scaling down.

[1] For comparison, the European Union has an average tariff of 2.4% and the United States 4%. In the quoted comparison of 100 countries, Pakistan and Morocco are highest with respectively 46.6% and 33.6% average tariffs each.

When the data is analysed, ratings below 50 indicate very high risk, and those above 80 very low risk. Out of a list of 129 countries, Tanzania has the 22nd lowest value (or the 22nd highest risk)[4]. From our point of view, it would be interesting to see if there were any changes during the period 1995 to 2003, but the data does not allow for any such comparisons. However, it shows beyond any doubt that investment in Tanzania in general, and in private small and medium enterprises in particular, would be a rather high risk venture. Campenhout (2002) also concludes that in a comparative perspective, Tanzania is doing particularly bad for savings and investment rates, and in the development of human capital (quality of education, vocational training, etc.). As the risks are real, such information must be kept in mind when assessing a program of EDP's nature.

If we now turn to Zambia, there are some similarities, but also significant differences. Zambia, a country with a population of slightly over 10 million inhabitants, has an economy that is historically dependent on copper mining. The country's fortunes declined significantly during the mid-1970s as a result of a number of factors that included such external shocks as the post-1974 rise in oil prices and decline in copper prices. The country's failure to adjust its policies in response to the economic decline worsened the situation. Foreign borrowing was increased to sustain the same level of standard of living of the average Zambian. Although there was recognition of the importance of diversifying the economy away from copper mining, the preferred option of import substitution industrialisation that was import-dependant was evidently inadequate to contain the declining economic record. This strategy encouraged firms, both local and foreign, to target their products towards the domestic market in a policy environment that did little to promote export activity. The entry of highly competitive consumer imports from the mid-1980s into the 1990s, supported by liberalisation policies under structural adjustment, revealed for the first time how inappropriate the country's industrialisation strategy had been as the country continued since then to face unprecedented rise in unemployment as uncompetitive domestic firms shaded off labour.

The implementation of the Structural Adjustment Programmes (SAP) in a stagnating economy was often piecemeal and, consequently, the fundamental attributes of the economy were not significantly altered. In particular, SAP failed to sufficiently take into account poverty reduction Nevertheless, the policy of liberalisation has resulted in the demise of many state enterprises that operated under a sheltered market and privatisation-cum-liberalisation saw the departure of highly inefficient state enterprise. Although significant growth has been registered since 1996 as the effects of liberalisation took hold, this has not been sufficient to offset the huge decline in per capita income that dropped by more than 50 percent in real terms between 1970 and 2000. The growth of the agricultural sector, having doubled its share of GDP during the 1990s, signalled a major change in the sectoral composition of GDP, with mining assuming a less dominant position. Zambia's metal exports, for example, declined from about 90 percent of the country's total merchandise export receipts in the early 1990s to 65 percent by 2000. During the same decade, the share of non-traditional exports, mainly agricultural exports, increased from 4 to 12 percent of total merchandise export receipts. This state of affairs reveals not only the collapsing importance of the mining sector but, on the positive side, an element of economic diversification, particularly towards higher value exports crops.

The deterioration in the balance of payments position has resulted in running down the country's foreign exchange reserves, a development that has had far reaching consequences for the wider economy. Moreover, the depreciation of the Kwacha has continued to adversely affect the productivity of most enterprises, particularly those that are import-intensive. Table 2.2 gives a summary of Zambia's economic growth over a 30-year period up to 2000 and does reveal a rather depressing picture.

[1] By way of comparison, Zimbabwe was deemed most risky, while Norway and Singapore were the least risky.

Table 2 GDP Growth and Investment, 1971–2000

	1971–80	1981–90	1991–2000	1991–95	1996–2000
Average annual growth rate:					
GDP at market prices	1.0	1.0	0.6	–1.6	1.4
Agriculture	2.0	3.7	4.4	7.0	1.7
Industry	1.6	2.5	–0.5	–6.3	4.5
of which: manufacturing	1.5	4.3	1.3	–3.0	4.9
Mining and quarrying	–0.6	–3.5	–13.3	–12.3	–17.9
Services	–2.4	–0.6	2.8	–2.9	5.1
Non–mining GDP	1.2	1.4	2.2	–1.9	3.2
Percent of GDP:					
Gross Domestic Investment	28	15	16	13	17
Public	n.a.	5	8	5	9
Private	n.a.	5	6	7	6
Change in stocks	n.a.	4	2	1	2

Source: World Bank Africa Region database, derived from GRZ/CSO data. 1971–90 rates are based on a 1977 constant price GDP series. 1991–2000 rates are based on a 1994 constant price series.

Very little positive structural change has been registered over the years in the Zambian economy. During the whole of the 1990s, Zambia recorded, at 1 percent, the least average annual growth rate in the whole of the SADC region during the period when Sub-Saharan Africa recorded a 2.4 percent growth rate. This has resulted in Zambia's GNP per capita recording the sharpest decline. The consequence of this has been a significant per capita decline. This weak economic performance has been greeted by a major decline in national savings whose levels of growth have continued to compromise the volume of investment that is so strategic in the much sought out sustained capital formation, income generation and employment creation. As the 2002–2004 Poverty Reduction Strategy Paper (PRSP) maintained,

The real gross fixed capital formation averaged 12 percent of real GDP and portrayed a steady but marginal increase from 8 percent in 1990 to 15 percent in 1999. While this is encouraging, the level is well below the 20 percent associated with sustainable growth. If Zambia were to depend entirely on its savings, investment would be low, resulting in a slow rate of capital formation, income generation and employment creation.

Another important macroeconomic fundamental that has far reaching consequences for private sector development, in general, and SME growth, in particular, regards the monetary policy position and performance. At this level, the government's main objective, as reflected in the PRSP, is to reduce inflation to 5 percent by the end of 2004 as well as the stabilisation of the financial system. Although inflation over the past decade has fallen, it has remained at unacceptable levels. Some encouraging signs emerged in 2001 with the rate of inflation falling below 20 percent, which is still quite high.

The small industries sector

In Zambia, micro-enterprises are the incubators for industrialisation. If not on agriculture, most poor people in Zambia depend for their incomes on the informal sector – typically micro-enterprises in services, agro-processing, manufacturing, and trading, in both rural and urban areas. The relative competitiveness of SMEs in a liberalising economy is conditioned, to an overbearing degree, by their peculiar constraints and market position relative to the more established firms. In Zambia, a further challenge is brought about by the crippling effects of in-coming imports under conditions that are not always favourable to SMEs. Moreover, considering the fact that the dominant position of large-scale local and foreign firms checks the smooth entry of SMEs into the marketplace in a competitive manner, some form of discrimination in favour of the latter is often required to enable them attain a certain degree of competence and efficiency under a liberalised market if their productive capacity is to be promoted, in the short-term, so that they become competitive, in the medium- to long-term.

The development and productivity of SMEs has been further constrained by long spells of price controls[5]; restrictive legal and regulatory provisions; poor infrastructure[6]; and inadequate resources, both human and financial. The technology constraints are perhaps the most crippling aspect for SMEs in Zambia today and have continued to affect their productivity. SME's growth potential in the economy largely depends on the extent of inter-sectoral linkages that have been developed. Several studies7 show that such linkages in the Zambian economy have been low. One of the main factors contributing to the low level of linkages has been the excessive technological dependence on the outside world. There has been very little effort in Zambia to develop indigenous technology geared to the utilisation of local resources. In the area of patent statistics which are considered as an indicator of inventive activity, for example, Zambia's record has been quite poor. According to Bhalla,8 the number of inhabitants per patent application has been one of the highest in the case of Zambia. Studies show that only about 10 percent of firms in Zambia are involved in R&D activities, and most firms do not employ sufficient scientists, engineers and technicians. Most of the R&D activity is confined to large firms, a phenomenon that remained the same even during the early years in the 1980s when the Zambian ecomony was doing relatively well. In particular, there are very few initiatives aimed at developing labour-intensive technological options for small-scale operators.

The legal and regulatory framework of SMEs has also affected their smooth development. One noteworthy aspect about literature on SMEs in Zambia, however, is that (a) it tends to stop abruptly in 1990 apparently due to the changed policy environment which witnessed the collapse of state-supported service agencies as well as co-operatives; and (b) even prior to 1990, very little was written about SMEs, again reflecting government policy bias.[9] The Agricultural Sector Investment Programme (ASIP) is actually silent on agro-processing.

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[5] See Jansen, D.,1988, *Trade, exchange rate and agricultural pricing policies in Zambia, World Bank comparative studies*, World Bank, Washington, D. C.; Saasa, O.S., 1996, *Policy reforms and structural adjustment in Zambia: The case of Agriculture and trade*, Technical Paper No. 35, USAID, Washington, October.

[6] See Pumulo M. Sipula, 1997, Agricultural Services and Performance of the Smallholder Sector: A Statistical Analysis, Report prepared forMAFF, Lusaka, Institute of Economic and Social Research, University of Zambia.

[7] See, for example, Seshamani, V. & Hassan, J.K (1985), Key Sectors in the Zambian Economy: An Attempt at Empirical Identification, in Osei-Hwedie, K. and M. Ndulo (eds) Issues *in Zambian Development,* Boston, Omenena Press.

[8] Bhalla, A.S. (1986): Technological Dependence of Africa, in *JASPA: The Challenge of Employment and Basic Needs in Africa*, Oxford University Press, Nairobi.

[9] See McKenzie, J. & Chenoweth, F. (1992), Zambia's maize policies: Consequences and needed reforms, Wyckoff, J. & Rukuni, M. (eds), *Food security research in Southern Africa: Policy implications*, Harare, University of Harare; Keyser, John C. George Gray and Guy Scott, 1996*: Zambia's Agricultural Comparative Advantage,* The World Bank, Washington D.C.

In theory, deregulation is assumed to contribute to the development of SMEs at two levels: (a) productive gains through improved efficiency; and (b) lateral expansion due to the enabling environment created for the establishment of SMEs. These two benefits are derived from such liberalisation policies as the relaxation of protracted investment approval procedures; price decontrols; freeing of labour market regulations; and removal of restrictive local government by-laws on SMEs.

Perhaps the main concern now is the extent to which the government's elimination of trade restrictions may have resulted in the crowding of the domestic market with competing imports, a phenomenon that is generally assumed to threaten the survival of local industries, including SMEs. While competing imports may be harmful to SMEs in the short-term, the Zambian experience so far suggests that this is more so only for particular sectors. The clothing and textile sector, dominated by numerous SSEs, is perhaps the worst hit by the immediate effect of trade liberalisation. This development has far-reaching consequences for the agro-processing enterprises in the sense that demand for their products has significantly declined.

There are also other constraints that continue to compromise the smooth development of Zambia's SMEs. Despite the policy of liberalisation, manufacturing firms, particularly those in the small- and medium-scale categories, continue to face a number of problems that have compromised their productivity. These include the following:

- liquidity problems;
- limited technical and managerial skills;
- inadequate business premises and infrastructure;
- lack of funds for investment, resulting in trading becoming more attractive than before;
- inadequate supply of infrastructure;
- high prices of utilities which have escalated production costs;
- lack of business support services.

Although there exists a number of institutions that provide a variety of support services in the form of training, financial assistance, technology, export assistance and business information, most of them have capacity problems.

In spite of the recognition of the above obstacles to micro-enterprise growth, rarely has the Zambian government created an environment favourable to their growth. Rarely does it provide access to financial credit and savings mechanisms. And rarely does it provide improved infrastructure, especially for water, energy and roads. During the pre-1991 period, the government administrative structure was neither clear nor stable. Consequently, the co-ordination responsibilities pertaining to the small and micro-enterprise sector was generally confused and scattered in many agencies and ministries. An effort to rationalise the institutional framework for SMEs was tried after 1991 when the Small Industries Development Organisation (SIDO) was transformed into Small Enterprise Development Board (SEDB). However, the state remained unsupportive and this change did little to address the problems of SMEs.

It is perhaps the legal aspects of the SME's regulatory framework that have served as the worst constraint to this sector's smooth development in Zambia. A host of inhibitive regulations that are largely hostile to the development of the sector exist. Restrictive legal regulations include the Traders Licensing Act of 1968; the Market Act; the Town and Country Planning Act; and the Public Health Act. Besides these, municipal by-laws, particularly the market regulations and hawker licenses regulations all serve as effective constraints particularly to the often despised informal sector participants such as traders, street vendors and hawkers. The registration and licensing procedures, even when these may be necessary and justified, need simplification and incentives ought to be offered to the smallest informal sector enterprises for them to see the need for registration. A typical example regards locational approvals. No entrepreneur can obtain approval for an industrial site unless such a plot is located in a designated 'industrial area.' Since the municipalities' zoning regulations specify that such areas should not be in residential areas, the majority of small-scale entrepreneurs are marginalised since they have access only to plots in their own residential areas. Presently, industrial estates, where they exist, can accommodate only a few of SMEs. Moreover, apart from being costly investments and unaffordable to most SSEs, these estates (like the Chinika Complex in Lusaka) are often located in areas far away from the factor and product markets.

It is also important to note that to the extent that the range of Zambia's manufacturing sector's products is narrow with few inter-linkages with other productive sectors in the economy, its linkages with the SME sub-sector are very weak. Consequently, the growth of the latter has been rather isolated from what goes on in the larger economy. The consequence of this is that Zambia's SME sector development has generally lagged behind and has remained principally in the informal sector category that has little policy support and where the investment and business climate is hardly conducive to dynamic growth.

If we now turn to Tanzania, the SME sector is one of the leading employers (next only to peasant agriculture) in Tanzania. The sector is considered to have a good potential for making a contribution to employment growth and increased incomes (Chijoriga et al, 2001). However, the potential of the sector to contribute to job creation and poverty alleviation has not been realised. Different studies suggest that few small enterprises grow and become significant employers, but a recent UNIDO study (no date) suggest that most of Tanzania's growth in manufacturing comes from small and medium industries, and that these actually produce a full 50% of the country's industrial output. The sector provides employment for 12% of the rural and 34% of the urban labour force and contributes around 30 of the GDP.

Tanzania distinguishes between micro enterprises (1–4 employees and capital investment below TSH 5 million), small enterprises (5–49 employees, capital investment between TSH 5 and 200 million), medium enterprises (50–99 employees and capital investment TSH 200–800 million), and above that, large enterprises. Much of the data on these different categories are actually sketchy, but it is still possible to get an estimate of overall size and significance. The sector policy[10] suggest that in there are some 1.7 million micro enterprises alone, employing a total of 3 million persons.

To get a full picture of the magnitudes we are speaking of, consider these data: there are about 700 000 new entrants to the labour force every year; about 500 000 of these are school leavers with few marketable skills; the public sector employs about 40 000 of new entrants to the labour market, leaving about 600 000 to join the unemployed. Most of these persons end up in the small industries sector, particularly in micro-enterprises in the informal economy.

How is the sector performing, and which are the factors that constrain its growth? Chijoriga et al (2001, p 15) analysed 300 firms, and about a third of them had a decrease in turnover over the past 2 years (2000 and 2001), another third stayed the same, and one third reported an increase in turnover. A higher proportion of women entrepreneurs reported that sales were increasing, suggesting that female entrepreneurs tend to be more successful than their male counterparts (a finding

[1] URT, Ministry of Industry and Trade, Small and Medium Enterprise Development Policy, 2002.

which is supported by many research studies, evaluations as well as much anecdotal evidence). When the entrepreneurs were interviewed about conditions that affected performance, the ranked difficulties as follows:

i. High competition and few market opportunities
ii. Un-supportive government policies
iii. Lack of money in circulation
iv. Too many regulations and restrictions
v. Skills and experience.

Those who did well explained their success in terms of their own skills, good business networks, and the fact that competition was low and market opportunities good. However, these are factors that affect enterprises at the micro-level. It is also interesting to analyse factors that may have an influence on the overall development of the sector.

Private sector development

Most small and medium companies, as well as many large ones, are now privately owned. The Government of Tanzania has defined the private sector development as one of its overriding priorities. It is seen as the key catalyst for economic growth and jobs, plus income generation. In this year (2003) the government is expected to develop a strategy for the sector to ensure coordination between government and donor initiatives. The private sector itself, although being very diffuse, seems to experience the benefits of organisation, the Private Sector Foundation and the new National Business Council are promising examples at the national level.

A recent Sida study pointed to a wide array of factors that come together to form an enabling environment. The crucial conditions that individually and jointly are required for a well functioning business sector were identified as:

- The effective operations of markets as the organising principle
- The level of incentives provided to the business sector
- Adequate access, competence and capacity

The use of markets as the organising principle ensures that production, distribution and resource allocation are in line with demand and economic efficiency. A system of governance in line with economic macro policy and with accompaning regulatory codes is required to establish and enforce a code of conduct, secure instruments that provide stability and reliability of markets, ease of entry and exit for businesses as well as mechanisms for resolution of conflicts. It would be expected that such a framework would lead to higher investment, better performance, and hence higher levels of growth.

The incentives to the business sector for economic growth, poverty reduction, and environmental and social sustainability will influence the rate of growth of the sector. The strength of incentives depend upon a combination of the level of opportunities and trade offs between risk and reward. Contributing factors are the extent of liberalisation of the economy, public trade policy, stability of the economic environment, corporate and personnel taxation, and the state of infrastructure.

The third crucial condition for the sector is access, competence and capability. These determine the effectiveness and competitiveness of the sector. Opportunities for commercial and technological training has increased rapidly in Tanzania. There is no doubt that privatisation and liberalisation has changed the economic environment in Tanzania, and it could be expected that these policies contribute to the improved growth that we described above. It may still be early to see an influence of such macro-economic changes at the level of specific firms. So, in what ways do the international community support Tanzania's efforts in these areas?

The situation is Zambia shows many parallels, but also differences. Priorities may be similar, but it has been more difficult to develop the private sector in Zambia. Against the above macroeconomic background, the Zambian government has expressly invited foreign investors to Zambia and uses the liberalised investment and trade regime as the basis for this. It is, however, difficult to attract investments (both local and foreign) unless certain fundamentals are in place. Top on the list is that *macro-economic stability is fundamental to successful liberalisation and for sustained private investment*. A government that attempts to privatise its state-owned assets, therefore, ought to recognise the importance of economic stabilisation that would free capital and provide the requisite environment for foreign private sector entry and growth.

Given the serious financial difficulties that characterise the public sector in Zambia, transferring loss-making and sheltered public enterprises to the financially-unconstrained private sector would be the most logical way to raise aggregate investment. The main challenge is that in countries like Zambia that face serious aggregate savings constraint, the anticipated privatisation benefits would not immediately be realised. A mere shift in investment responsibility from the public to the private operators would not necessarily lead to a higher and sustainable overall investment ratio in the absence of improved aggregate savings. This important prerequisite to economic growth is not possible in the absence of macro-economic stability.

Secondly, *the existence of a facilitative regulatory and legislative environment is pivotal to attract foreign investment* whether it is coming in on its own or in partnership with local companies. In order to ensure that the provisions of competition law do not unduly restrict firms' ability to freely compete and that their enforcement does not leave too much to the interpretation and discretion of the overseeing authority, FDI generally expects the law to be explicitly clear on what is allowable/exempted and under what circumstances. This is particularly important for Zambia considering the newness/inexperience of the institutions tasked with the responsibility of competition enforcement; the limited financial, information, and human resources at their disposal; and the power and influence of some of the firms (particularly multinational corporations) whose activities they have to monitor and regulate.

Without an enabling environment that allows the private sector to take autonomous business decisions with minimum regulatory or legal checks, the attractiveness of the country to FDI would remain marginal. In this regard, undue government controls should be eliminated and the facilitation of non-disruptive labour laws ought to be put in place at the very early stage of privatisation/liberalisation.

Apart from the need for the existence of a conducive regulatory and legislative atmosphere, the capacity of the government to enforce the competition policy and laws is quite fundamental in translating the legal reforms into positive economic change. Support from Zambia's development partners towards the facilitation of the requisite capacities to effect and sustain this change is important. In particular, external support is evidently required to ensure that the legal and regulatory infrastructure/institutions that safeguard competitiveness are developed and consolidated by attending to, *inter alia*, their human, financial and technical capacity limitations. The government and donors should, thus, allocate more resources to the institutions that are charged with the mandate of competition policy enforcement if the policy of liberalisation is to be effective, in general, and the volume of FDI entry into Zambia's productive sector is to be assured, in particular.

Most domestic manufacturing firms in Zambia, particularly SMEs, continue to face liquidity problems and lack of funds for investment while trading has become more attractive than before. What has caused these problems appears to be the speed and manner of policy implementation. Trade liberalisation is one prominent example where adequate attention was not paid to the policy trade-offs. Zambia's trade liberalisation seems to have been implemented with too much swiftness especially in the light of what takes place in the county's major regional trading partners.

It is the speed of the trade liberalisation that has caused concern to Zambian manufacturers who have complained of the rapid opening up of the Zambian market to foreign imports especially from the COMESA region and South Africa and have maintained that it has rendered the playing field 'unlevelled'. In particular, their complaints have been directed at South Africa that offered for a long time export subsidies of up to 20 percent and at Zimbabwe that still places a number of bureaucratic non-tariff barriers making it difficult for Zambian products to enter its markets. The validity of these complaints is partially borne out by the statistics that indicate a growing negative balance of Zambia's trade with Zimbabwe and South Africa.

The productivity and employment record of the privatised sector also raises serious concerns regarding what the 'missing link' could be considering the well articulated merits of liberalisation. The results of a recent World Bank post-privatilisation evaluation of non-mining enterprises in Zambia[11] are presented in Box 1.

Foreign aid, the private sector, and poverty alleviation

Whether successful or not, most development cooperation have as its overriding target to contribute to the alleviation of poverty. That is why there are aid programmes in Tanzania and Zambia. It is thus interesting to see how and why the prevalence of poverty has changed. Several poverty indicators are used to map out the magnitude of poverty in developing countries. The Basic Needs Poverty Line and the Food Poverty line, normally presented as percentages, are the two most commonly used indicators. The broad interpretation of these ratios is that the lower the ratio, the lower the incidence of poverty.

Many studies have indicated that poverty in Tanzania has actually increased between the early 1960s and 70s, and up to the present (Othman and Liviga, 2002). Basic Needs Poverty in mainland Tanzania increased from 37% to 43%. These studies also indicate that the Food Poverty Line in the mainland increased from 16% to 23% during the same period[12]. The situation appears to be the same all over the country, in rural areas as well as in Dar-es-Salaam and other urban centres. Other indicators also illustrate the magnitude of poverty. The literacy level is now estimated to be 68%, down from 90% achieved in 1980. Among low-income families the literacy rate is 59%. The gross enrolment for primary school pupils is 77%, down from 90% in the 1980s.

A high incidence of unemployment is among the key distinguishing features of poverty. Largely because of poverty, the economy cannot generate enough employment opportunities. Poverty, GDP growth, employment, and the development of the private sector, small and medium scale firms, are intricately interlinked. The unemployment situation in Zambia is quite depressing. Since the intensification of the reform programme, formal sector employment, particularly in the manufacturing sector has not been favourable and declined by 2.1 percent in 1998 over the 1997 figure.

[11] see Tzannetis Serlemitsos & Harmony Fusco, "Zambia Country Assistance Evaluation: Post-Privatization Study." OED Background Report., Lusaka, World Bank, 2001.

[12] Quoted from Othaman and Liviga, 2002. This si according to the assessment of poverty based on the 1991/92 Household Budget Survey data and preliminary analysis of the 2000 Household Budget Survey.

Box 1: Trends in Company Pre- and Post-Privatisation Performance

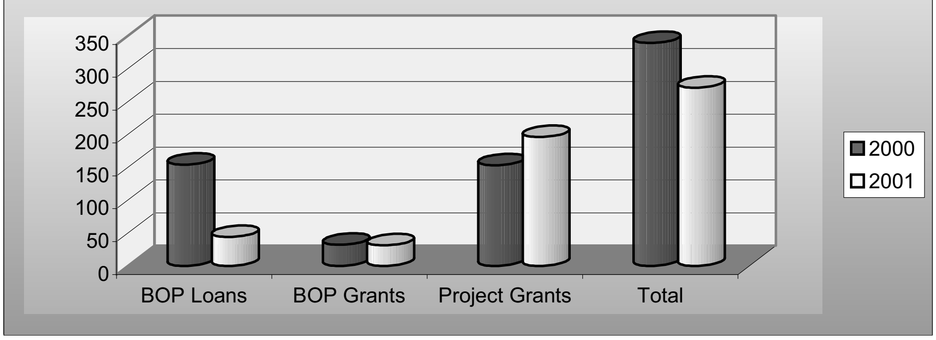
- Based on turnover data, almost two thirds of the companies declined within the 1992–2000 period. However, a majority of large companies showed a positive growth rate, while the majority of smaller companies experienced negative growth.
- In the aggregate, real turnover results indicate a steady decline prior to 1998 and virtual stagnation since. However, larger companies showed turnover improvement since 1998, while smaller companies showed steady decline through 2000.
- All companies show a drop in employment levels since 1996, with larger companies showing a steeper drop than smaller companies. Overall, real turnover per employee declined through 1998, but has recovered since to 1996 levels, the median year for privatizations. For the largest companies, real turnover per employee has rebounded to levels of the early 1990s. For smaller companies, productivity has stagnated in recent years.
- Larger companies show operating losses in the 1998 and 1999, with a small profit in 2000, while smaller companies show sustained losses from 1996 to 2000.
- Larger companies account for the majority of capital investment.
- A sharp drop in small company sales volume prior to 1996 suggests gross under-reporting of performance data in the run-up to privatization.
- Indexing real turnover to the year of privatization of each company reveals an aggregate privatization curve for these companies: a steep decline to the year of privatization, a slight rebound in the following two years, and a modest decline in years three and four of the post-privatization period. Despite the initial rebound, most companies have not recovered to real turnover levels of the early 1990s
- Larger companies follow the standard privatization curve, but show a more moderate decline before privatization and a stronger rebound after privatization than smaller companies.
- The standard privatization curve does not hold for mining supply companies, which continued to do poorly after their own privatization [apparently]due to the drag effect of delayed mining privatization.
- All other sectors follow the standard privatization curve, with the agriculture sector and the food and beverage sector showing the sharpest initial decline and strongest post-privatization rebound.
- Performance by companies purchased through competitive bid sales follow the standard curve. Performance by companies purchased through pre-emptive rights sales (usually to foreign investors holding minority shares and a management contract) was unaffected by privatization. Performance by companies purchased through management buy-outs show a continuous and steep decline.
- Companies with low inter-dependence with copper mining follow the standard privatization curve. Companies with medium inter-dependence follow the standard curve, but show a sharper recent decline that may reflect efforts by the new mining owners to diversify supply sources. Companies with high inter-dependence with copper mining did not follow the standard curve, showing no post-privatization rebound until four years later, coinciding with privatization of the mines.
- Companies purchased by Zambian investors showed a sharper decline in performance prior to privatization. It is possible that Zambian investors were attracted to firms with a strong track record within a highly protected environment, that declined rapidly in a liberalized environment. However, little difference exists in post-privatization performance between companies with indigenous or foreign owners.
- Companies that are not export-oriented follow the standard privatization curve most closely. Heavily export-oriented firms began their recovery prior to privatization–undoubtedly responding to the liberalized environment–and have rebounded to turnover levels of the early 1990s

Source: World Bank, Zambia: Country Assistance Evaluation, Washington, Operations Evaluation Department, May 2002 (Draft) Annex 13.

The majority of the workforce has been pushed into the informal sector for their subsistence. The observed total employment growth rate of 7.8 between 1997 and 1998 is solely attributable to the informal sector, dominated by non-agricultural informal employment growth of 10.8 percent. In the same period, the contribution of agricultural informal employment growth stood at 8.8 percent. Formal sector employment (which has not exceeded 20 percent of the labour force in a long time) declined from 12 percent to 11 percent between 1996 and 1999. The resultant decline in income levels for an average Zambian has sparked escalating unprecedented poverty levels in a country currently being classified as one of the poorest in the world.

Zambia's worsening debt burden largely explains why, to a large extent, donors are increasingly more predisposed to giving the country grants rather than loans. Equally noteworthy, a significant level of external resource flow to Zambia goes towards debt servicing as part of balance of payments support. Since the 1960s, aid to Zambia had shown steady increase (at current prices), particularly during the early 1990s. Bilateral aid has been more significant than multilateral assistance. According to the Zambian government's recent *Economic Report*,[13] aid flow to Zambia declined in 2001. While US$339 million was received in 2000, only US$271 million was received in 2001, a 20.1 percent decline. Out of the total received in 2001, balance of payments support accounted for only 11.4 percent, compared to its share of over 50 percent during the 1992–1993 period. There is an evident preference towards projects grant whose share of the 2001 external aid was US$196 million, or 72.3 of the total. Moreover, BOP loans stood at US$154 million during 2000 (representing 45.4 percent of the total aid flow during that year), but this declined to only US$44 million in 2001. Aid flow to the country in the last two years (2000 and 2001) is shown in Figure 2 while Table 3 summarises Zambia's macroeconomic conditions under which SMEs operate.

Figure 2: Aid Flow to Zambia: 2000 & 2001 (US$million)



Source: Derived from data in GRZ, 2002, Economic Report 2001, Lusaka, Ministry of Finance and National Planning, Lusaka, February.

The foreign aid community in Tanzania contributes to the SME sector, and particularly to the development of a dynamic and viable private sector. There is a broad consensus that the private sector must become a core engine for sustainable growth. The World Bank, Denmark, the Netherlands, USAID, Sida and DFID are active with major sector programmes. The focus of these lie on institutional support, commercial law and judicial institutions, as well as on financing schemes.

In the debate among academics and within donor agencies, there is a consensus that economic growth is a necessary condition for reduction of poverty. The discussion is primarily focused on to what extent growth is a more or less sufficient condition and, if so, the support to business sector development should be focused and maximised. Dollar and Kray (2000) argue that the income of the poor increases one for one with overall growth. Others argue that the relation is less direct and dependent on the pro-poor profile of the growth. Interventions may be required to remove different barriers for access and participation. Still, over time, the result is expected to be a reduction of poverty.

[13] GRZ, *Economic Report 2001*, Lusaka, Ministry of Finance and National Planning, February 2002, pp. 57-58.

Annex 3. Interview guidelines

Guidelines for company interviews regarding Enterprise Development Program

A. Introduction

1. Purpose with the interview
2. EDP, short recapitulation
   - SIDA project 1996–2000
   - encourage and facilitate growth of SME
   - increase productivity, profitability and volyme
   - establish 20–25 long term commercial c operations with Swedish enterprises
3. Presentation of myself
4. Offer to send the evaluation report!

B. Company history in brief

1. Can you tell me about the company?
   - History
   - Products
   - Ownership
   - Participation in EDP

C. Production

1. Can you describe the technical development of the company in recent years?
2. In what way has the technical development affected the company
3. What was the cause for this technical development?
4. Has there been any change in goods of investments?
5. How do you measure productivity?
6. How did the productivity develop between 1996–2000

Big decrease	Small decrease	Unchanged	Small increase	Big increase

7. How has the productivity developed since 2000?

Big decrease	Small decrease	Unchanged	Small increase	Big increase

8. How do you measure quality?

9. How did the quality develop between 1996–2000

Big deterioriation	Small deterioriation	Unchanged	Small improvement	Big improvement

10. How has the quality developed since 2000?

Big deterioriation	Small deterioriation	Unchanged	Small improvement	Big improvement

11. What are the biggest problems when it comes to improving the production?

12. How are you coping with those problems?

D. Marketing & Sales

1. How did the sales develop between 1996–2000

Big decrease	Small decrease	Unchanged	Small increase	Big increase

2. How has the sales developed since 1996? (turnover)

Big decrease	Small decrease	Unchanged	Small increase	Big increase

3. Have you added or excluded any products in your portfolio since 1996?
4. How will you describe the competition you have to face today vs. 1996?
5. From where does this competition come from?
6. Can you tell me something about your plans for the future regarding sales?

E. Personnel

1. How many employees do you have today and how has is changed over the past years?
2. What kind of competence do you need among your employees?
3. How did the competence among your employees develop between 1996–2000?

Big deterioriation	Small deterioriation	Unchanged	Small improvement	Big improvement

4. How has the competence among your personnel developed since 2000?

Big deterioriation	Small deterioriation	Unchanged	Small improvement	Big improvement

5. What is the reason behind this?
6. What do you expect about the number of employees five years from now?

Big decrease	Small decrease	Unchanged	Small increase	Big increase

F. Capital supply

1. How do you get capital for the company investment & development?
2. Can you tell me what measures you are planning in order to make the company in need of less working capital?

G. Result

1. How did the financial results develop between 1996–2000?

Big decrease	Small decrease	Unchanged	Small increase	Big increase

2. How has the financial results developed since 1996?

Big decrease	Small decrease	Unchanged	Small increase	Big increase

3. What do you see as the main obstacle for the company in order to become more profitable?

H. Final question

1. Is there anything you would like to add before we finish this interview?
2. Have you had any contact with other aid programs then EDP

Annex 4.
List of companies visited and persons interviewed

Interviews in Sweden:

Company/organisation	Person interviewed	Title	Date
WP International:	Ewa Wenström		
HIFAB International:			
Sida:	Bo Dan Bergman		
Team Offset & Media	Göran Ekman		
RIMAB	Lennart Bäckman		
Fly-City AB	Dorthy Florin		
I Brandmark Handel AB	Ingemar Brandmark		
Allbäcks Byggnads AB	Dan Allbäck		
Konradsson AB	Lars Konradsson		
WIBO Frukt&Grönt	Bo Dahlström		
Horreds Möbel AB			
Cert-X Herbertsson & Munthe AB	Christer Herbertsson		
Brisshäll Motorrenoveringar AB	Hans Brisshäll		
Scandi Gruppen AB	Tryggve Erlandsson		
L-E-P AB	Lars-Erik Persson		
JCH Fabrication	Christer Johansson		
SweZam Dev Ltd c/o Wranges juvelerare	Michael Wrange		
Bernt Bengtsson AB	Bernt Bengtsson		
Widaqt AB	Peter Lager		

Interviews in Tanzania

Company/organisation	Person interviewed	Title	Date
Commercial Brothers	Mr. A.M. Nahdi	Marketing repr.	June 14
John's Engineering			June 14
Kolla Hill	Mr. J. Kategule	Owner/manager	June 14
Tanzania Tea Blenders			
Sindy Batik	Mrs. E. Mwandanji	Director	June 10
Tommy's Dairy farm	Mr. T. Lyimo	Managing Director	June 16
Kibanda Arts			
Women Mines Association	Mrs. R. Mushi	Director	June 18

Company/organisation	Person interviewed	Title	Date
KC Company	Mr. F. Bube Mr. L. Kansten	Field Op. Manager Fleet T&O Manager	June 17
Utege Technical Enterprise	Mr. O. Igogo	Chairman and CEO	June 9
Keshwaji Ramji Timber	Mr. A. Jethwa	Managing Director	June 16
Chani Auto Garage	Mr. H.E. Chanimbaga	Managing Director	June 8
Dabaga Veg & Fruit Canning	Mr. B.L. Desai	Managing Director	June 8
UKH Accountants and Auditors	Mr. D.H. Kato	Partner	June 11
Ruhinda & Company	Mr. D. Ruhinda	Managing Director	June 13
Scanza Co	Mr. S. Lundh	Director	June 10
Maneno Mengi/Maweni	Mr. J. Kahema	Partner	June 12
Msemo Hotels and Tours	Ms. Andre-Eklund	Partner/owner	June 18
Africa Tours	Mr. R. Chengula	Managing Director	June 8
Zzoikos	Mr. Shange	Partner	June 13
Infobridge	Mr. E. Mugerezi	Managing Director	June 9
Confederation of Industries	Mrs. C. Kilindu	CEO	June 18
WP International	Mr. F. Maliti	Senior Consultant	June 7, 13, 18
Embassy of Sweden	Mrs. E. Hagwall	Private sector Development Adviser	June 11 and 18
Small Industries Development Organisation	Mr. M. Laiser Mr. P. Wenga	Director General Director	June 11

Interviews in Zambia

Company/organisation	Person interviewed	Title	Date
Setrec	Sebastian Kopulande	Manager	June 6
Afe Limited		Manager	June 6
Clean Fast	Mrs Pauline Muleya	Manager/Owner	June 6
Chankwakwa	Mr Rolf Eriksson	Manager/Owner	June 9
Maplehurst Farm	Mr David Murdoch	Manager/Owner	June 9
Rivonia Farm	Mr Bill Coltron	Manager/Owner	June 10
Customized Clearing	Mrs Valerie Seisa	Manager	June 10
Manzi Water	Mr Steward Simpson	Manager	June 10
Dial-a-Cab	Mr Mulilo Chuula	Manager/Owner	June 12
Cutline Ltd	Mrs Audrey Mwanyungwi	Manager	June 12
Venus Stationary Ltd	Mr John Fisher	Manager	June 12

Bedrock Farm	Rory & Suzanne McMurdoch	Owners	June 13
Ace Auto Engineering Ltd	Mr Chris Swart	Manager	June 17
Glaster Trading Ltd	Mr & Mrs Kabwe	Manager/Owners	June 17
Mpende Farm	Mr Chris Wright	Owner	June 17
Lufwanyama Enterprizes Ltd	Mrs Frida Heygate	Financial Manager/ Owner	June 17
former Hifab	Mr Nicolaus Nyenwa	Former loan administartor	June 19
Mwachisina Investment Ltd	Mr James Matale	Manager/Owner	June 19
Freightlink Business Services	Mr Charles Chitobolo	Manager/Owner	June 19
Mwaca Gemstones	Mr Cosmas & Mrs Jullie Nyendwa	Owners (51%)	June 20
Chirundu Fish Farm	Mr Tim & Mrs Nicole Fuller	Owners	June 20
Former Hifab	Mr Trevor		June 21
Embassy of Sweden	Mrs. Kristina Rehlen Mrs. N. Machila	Ambassador Programme Officer	 June 25

ENTERPRISE DEVELOPMENT PROGRAMMES IN TANZANIA AND ZAMBIA – INEC's MANAGEMENT RESPONSE TO THE EVALUATION

1. Background

The Enterprise Development Programmes (EDPs) were initiated in 1995. The objectives were to encourage and facilitate growth in the private sectors in Tanzania and Zambia by fostering relationships between small and medium sized enterprises and Swedish firms. Sida contracted two consultancy firms to manage the EDPs: Boliden Contech AB (later changed to WP International AB) in Tanzania and Hifab International AB in Zambia. The procurement of the consultancy services was done under a competitive bidding procedure. The project logic was the same in both countries.

When the two programmes came to an end in 2000, the consulting firms submitted final reports on the implementation of the programmes and their achievements. An internal analysis of the programmes were made, based on conclusions from the two Advisory Groups that were set up to follow and advise Sida on the developments of the EDPs. It was concluded that the two programmes should not be continued or replaced by any similar business-to-business co-operation programme.

With respect to an external evaluation, Sida decided to wait a few years before commissioning such an exercise in order to allow sufficient time to pass for the companies and the business relationships to mature in order to test their sustainability.

The external evaluation was carried out in mid-2003 by the consulting firm "Andante – Tools for Thinking AB" after a tendering process. Its task was mainly to assess the achievements of the EDPs against their objectives as identified in the Logical Framework Analyses (LFA).

2. Summary of the Evaluation Results

According to the LFA, the target was to support 20-25 enterprises and establish at least 15 twinning relationships in each country. At least 80% of the supported companies would show an increase in profitability. The results of the evaluation showed that a total of 54 companies in Tanzania and Zambia were screened and took part in training/counselling activities. Relationships with a Swedish partner were initiated for 49 of them. When the programmes ended in 2000, 19 partnerships were still active. In June 2003, 6 of the partnerships/twinning relationships had survived.

	Tanzania	Zambia	Targets
Companies surviving 2003	71%	76%	90%
Lasting relationships	10%	8%	20–25%
Increased turnover 2003	29%	36%	80%
Increased profitability	9%	28%	80%

3. Sida's Comments and Analysis

The Concept

Sida has been supporting individual enterprises in Africa since the mid 70's. Over time, there has been an evolution of the concept of individual business support towards the provision of more commercial assistance. In the case of the EDPs, the concept applied was based on the principle of promoting commercial partnerships as a means to support and develop local companies. It was expected that the commercial interest from both the Swedish and the local company would guide the competence development and training activities, and that the commercial interest and the mutual benefits derived from the business-to-business co-operation would ensure a maintained relationship once the Sida support was terminated. The Sida funds were to subsidise the initial contacts and create a bridge between companies in Sweden and firms in Zambia and Tanzania, which would then continue the collaboration on their own. The basic principle behind this concept, with its focus on the commercial interest and mutual benefits for the participants, are still considered valid as such.

However, Sida's own analysis and conclusions from the two programmes point to the importance of implementing this concept in the right environment. When the two EDPs were designed, both Zambia and Tanzania had entered into a liberalisation phase – markets were opened up, exchange rates were liberalised, comprehensive privatisation programmes were undertaken and the private sector was considered the future "engine of growth" in both countries. It was expected that things would change rapidly. Sida intended to support this transformation e.g. through the EDPs, which would contribute by strengthening the local companies and creating an interest from Swedish companies for investments in and business with the two emerging market economies.

The business climate was not particularly favourable during the implementation of the EDPs. Tanzania and Zambia experienced continued depressed economic environments, which adversely affected the quantity and quality of the participating companies. It is concluded that the EDPs would have been better suited to countries with more robust economies where partnership arrangements would be more beneficial to companies both in the developing country and in Sweden.

During the first years of EDP, geographical limitations to certain regions of Sweden, Tanzania and Zambia, coupled with poor infrastructure in Tanzania and Zambia, made it difficult to identify viable and suitable enterprises. Overall, the programmes selected small enterprises with limited turnover and margins, which made it difficult for the enterprises to maintain the transaction costs necessary for commercial relations with Swedish companies. Indeed, the requirement of partnership as a means of developing Tanzanian and Zambian enterprises proved to be more of an obstacle than an opportunity in a number of cases.

However, during the course of the EDPs, 54 Tanzanian and Zambian enterprises were provided with business counselling and training and were also assisted by Swedish partners for some years. The total cost for the two programmes was approximately SEK 36 million during a five-year-period (i.e. about. 3,6 million per country per year). These figures give an average subsidy of SEK 669 000 per company, taking management and other over-head costs into account. In retrospect, and with the outcome of the ex-post evaluation at hand, this figure must be considered high.

Management and Steering of the Programmes

Sida was not involved in actual implementation of the programmes, nor did Sida take any operational day-to-day decisions with respect to the programmes. Steering and follow-up by Sida was supported through the Advisory Groups established for the two programmes. Apart from Sida, these groups drew their membership from consultancy firms and the business sector in Sweden, including Swedfund International AB. It was considered that this set-up would enhance the steering of the programmes based on the collective knowledge and experience in the two groups. Sida, however, remained in charge of strategic decision-making with respect to the programmes. Sida also remained in charge of checking and approving invoices submitted by the two consultancy companies, and for ensuring that fees and costs were in line with valid agreements on the same.

These functions were carried out throughout the life of the programmes, in accordance with Sida's normal standards and routines.

The administration of loans under the two programmes turned out to be a complicated matter, especially in Zambia, where there was a very limited interest from the formal banking sector and/or financial institutions to actively engage in the administration of the loan portfolio and advise on individual loans. These circumstances left the programme with the option of the consultancy company administrating it and scrutinising applications largely on its own. Even before the ex-post evaluation, Sida concluded that the loan portfolio in Zambia was not properly managed. An audit was commissioned, but the investigations found no evidence of fraud or of misappropriation of funds. Nevertheless, as Sida was not happy with the handling of the loans, actions were taken and Hifab International AB has reimbursed Sida for the deficiencies in its loan administration.

The comments made in the ex-post evaluation relating to the business ethics of certain Swedish companies, particularly in the Zambia programme, are being followed up by Sida, Stockholm in collaboration with Hifab International AB and the Swedish Embassy in Lusaka.

Based on statements in the ex-post evaluation, it is concluded that the EDPs would have benefited from a much closer involvement by Sida at all levels. Sida is, in general terms, restrained from such active involvement in individual projects and programmes for administrative reasons. In addition, if Sida becomes part of day-to-day decision-making in individual projects and programmes, roles and responsibilities might easily get mixed up. INEC's overall response with respect to this are set forth under Lessons Learnt below.

4. Lessons Learnt

The main overall consequence resulting from Sida's internal analysis of the outcome of the EDPs in Tanzania and Zambia (apart from not continuing with any similar programmes in the two countries) is that Sida has ceased to run this type of bilateral programmes in direct support for the development of African enterprises. As an alternative, Sida has increased its collaboration with institutions specialised in this area. The main organisations that Sida is collaborating with in this field are the Centre for the Development of Enterprise (CDE) in Brussels and the International Finance Corporation's (IFC's) led African Project Development Facility (APDF) and the African Management Services Company (AMSCO), both headquartered in South Africa

Sida also provides support through the StartSouth Programme. This programme offers financial support in selected developing countries to Swedish small and medium-size enterprises at the starting-up phase of joint projects with local companies by providing loans. Business Partnership Funds have also been created in a few countries with conducive business environments, such as South Africa and Chile.

In addition, in countries such as Zambia and Tanzania, Sida is now increasingly focusing its support for private sector development to interventions aimed at contributing to an improved national enabling environment for private businesses.

Rolf Eriksson,
Head
Private Sector Development Division

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