

MAY 2009



## ABOUT THE AUTHOR

**PETER MWANZA**

is the Program Manager for the Copperbelt Small and Medium Enterprises (SME) Suppliers Development Program, an IFC Linkages program in Zambia. He is an SME development specialist with more than 12 years of experience in SME development from Southern and East Africa. Before joining IFC in 2007, he worked for the Southern Africa International Business Linkages program, a USAID-funded project located in South Africa.

**APPROVING MANAGER**

Colin Shepherd, Business Line Manager, Corporate Advice (Africa).

The author wishes to acknowledge Mutamba Bwalya, Operations Analyst; Mwila Chanda, Team Assistant; and Thilasoni Chikwanda, Line Operations Officer, for their contributions in writing this SmartLesson.

# IFC SmartLessons

*real experiences, real development*

## Helping Local SME Suppliers Survive the Global Economic Crisis: Lessons from Zambia

*Economies dependent on resource extraction are particularly susceptible to sudden swings in commodity prices. IFC linkages projects should take this into account by helping small and medium enterprises (SMEs) prepare for the "hard times," such as the current global economic crisis, through diversification of markets and improving their coping capacities. To reduce their dependency on one or a limited number of corporations, SMEs should also be linked or introduced to market opportunities available from other organizations or firms. Likewise, other players or consumers in the sector should be included in "crisis" planning and introduced to SMEs to increase the market size for SMEs. Finally, partnerships should be sought with government organizations involved in SME development to design innovative capacity-building interventions. This SmartLesson describes how we are helping Zambian SME suppliers hit hard by the global economic crisis and sharp fall in world copper prices and the lessons learned from our experience.*

### Background: Sharp fall in world copper prices

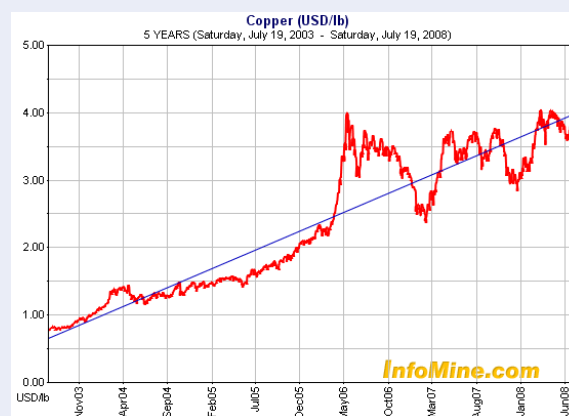
While the global economic crisis has badly hit economies around the world, resource-fueled economies have been the worst affected because of the sharp drop in commodity prices.

By December 2008, the global financial crisis and its impact on copper prices had contributed to a significant slowdown in the Zambian mining sector, which is dominated by copper production (cobalt production follows in a distant second). Between July and December 2008, the price of copper had decreased from about \$4.00 per pound to just above \$1.00 per pound. This sharp price decline has had a significant impact on Zambia's economy which is heavily dependent on copper.

The direct impact of the crisis on Zambia's financial sector has been limited, however, thanks to Zambia's

reliance on domestic funding that provides very limited exposure to external credit lines. So far, the largest impact of the global economic crisis has been the very sharp decline in global copper prices and its accompanying negative consequences for the mining sector. As shown in Figure 1, it appears that the high copper price honeymoon is over, at least for now, as the current price of \$1.00 per pound brings it to 2003 levels.

Figure 1: Increasing Copper Prices from 2003 to June 2008.

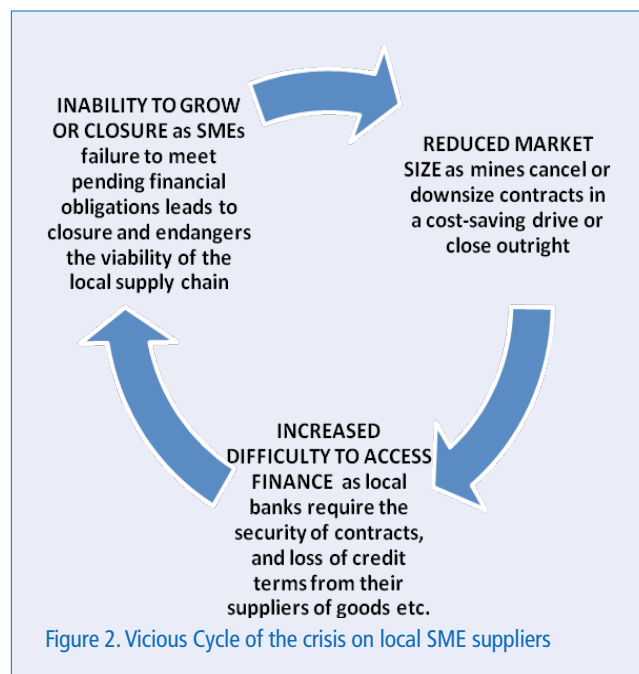


Mining companies in the country have scaled down operations dramatically, resulting in emergency measures that include extended periods of leave for staff or even halting operations completely. In November 2008, Luanshya Copper Mine, one of the six major mines in Zambia, suspended construction of the Mulyashi copper mine; the next month, the company halted operations and laid off 1,740 employees. Between December 2008 and February 2009, another major mine, Chambishi Metals PLC, stopped production of cobalt, while a third mine, Konkola Copper Mines PLC (KCM) closed its smelting plant in Kitwe, increasing anxiety and fear of job losses among mine workers.

Mopani Copper Mine (MCM), one of Zambia's oldest mines, also put its Mufulira mine on "care and maintenance" and laid off a huge number of workers. Further, Albidon, a nickel mine, has also closed its operations, with several small exploration companies suspending or completely stopping their exploration works. It is estimated that more than 10,000 jobs have been lost in the Zambian copper belt due to the global financial crisis. What does all this mean for local SME suppliers?

### Impact on SME suppliers

The scaling down of operations and contracts by mines has decimated the availability of business opportunities for local SMEs, which rely heavily on business provided by the mines. Suppliers have experienced major downsizing or complete cancellation of their contracts as mines embarked on cost-saving measures.



The cycle is increasingly vicious as more and more local banks are denying suppliers loans because of unreliable payments from mining companies, some of which are struggling to survive. Underground mines, such as MCM and KCM, are hit hardest because their production costs per pound of copper are generally higher than those with open-cast mining operations. Unfortunately, this does not

help suppliers because these two mines are the largest and provide the biggest market to local suppliers. Because of the impact of the global economic crisis, most SME suppliers are threatened with closure.

### IFC's Response

In 2007, IFC established the Copperbelt SME Suppliers Development Program (CSSDP), a linkages initiative undertaken by the IFC Private Enterprise Partnership for Africa and implemented jointly with four of Zambia's leading multinational mining companies.

The objective of the program is to help multinational mining companies integrate local SME suppliers into their supply chain by focusing mainly on SMEs in the manufacturing sector and those with value-adding activities. The program aims to achieve this objective by helping to increase the competitiveness of local SMEs by offering training on productivity improvement, quality management systems, sales and marketing strategies, business diagnostics, and quality management systems, as well as helping SMEs develop bankable business plans that can be used to access finance.

Specifically, to help SME suppliers survive this period, the CSSDP is:

- *Conducting workshops to train SMEs to understand the importance of diversifying their markets as a form of "hedging."* The Project Management Unit and steering committee of the program have also been making one-on-one visits to the affected SME clients to help them understand their specific needs and offer solutions. For example, some SMEs have been awarded on-the-spot contracts to help them survive.
- *Increasing SMEs access to finance.* The depressed market conditions in Zambia's mining region have resulted in commercial banks being reluctant to advance loans and other facilities to SMEs, especially those primarily dependent on supplying mining companies. This is despite the fact that the cost of capital is quite high in Zambia. To help deal with this situation, the program has agreed to work with the Citizens Economic Empowerment Commission (CEEC)—a statutory body tasked with empowering local entrepreneurs (citizens) by providing loans at competitive rates to expand or start new businesses. According to the CEEC, poor quality of business plans received from SMEs is one of the biggest challenges hindering them from accessing finance available through the Citizens Economic Empowerment Fund (CEEF). The program is therefore focusing on assisting SMEs to do bankable business plans in order to access these funds. As part of this agreement, CSSDP has begun identifying SME suppliers in the copper mining regions to prepare bankable business plans, which will be financed by the CEEC fund.

The plan of this pilot is to help about 50 existing and potential SME suppliers with market-diversification plans in order to avoid a total collapse of the local supply chain. This is important because the mines will need the supplier

network to be available when the market and industry outlook improves.

While the global financial crisis and subsequent impact on Zambia's mining sector have brought many challenges for our work, some positive lessons have emerged that will help guide and improve current and future linkages projects.

## ***Lessons Learned***

### ***1) Help SMEs look beyond IFC clients to diversify their markets and help them survive hard times before they hit.***

Because of the volatile nature of commodity prices and their severe consequences for SMEs, IFC linkages projects should include market-diversification strategies for SME suppliers. SME suppliers are often the worst affected and need the most assistance during the current global crisis. In Zambia, this is partly because they are ill-prepared or lack the capacity to look for markets beyond supplying the mines. IFC should help SMEs look beyond our partner companies and investment clients to help them ride out the impact of falling commodity prices. While included on a linkages project, an SME should still seek markets for its products or services outside of the extractive industries. For example, we approached La Farge, a cement-producing



*Paying attention to a client's needs*

company based in Lusaka, which consumes quite a number of products and services offered by our SME clients. Based on our discussions with La Farge, the company has requested our help to train some of our SME suppliers on business management skills. The suppliers will then be awarded contracts.

### ***2) Keep an eye out for “smart partnerships” from nontraditional sources to achieve your objectives.***

Many organizations are involved in SME development or related businesses. While partnerships with donors and corporate bodies are very strategic, we have also explored partnerships with relevant government bodies that service SMEs, such as the CEEC. Discussions about partnering with



*Reduced business volumes—an impact of the crisis.*

the CEEC started in March 2009 after we read articles in the local paper about the challenges that CEEC faced in disbursing its funds because of the lack of capacity of SMEs to prepare bankable business plans. By understanding the challenges facing relevant government institutions servicing the SME sector, we were able to develop a partnership that was beneficial to all parties—IFC, the partner organization, and our beneficiaries, the SMEs themselves. Under the arrangement, CSSDP will help SME suppliers develop business plans to help them diversify their market beyond mines while CEEC will fund such business plans with more competitive rates and more flexible lending terms. This partnership is one way to overcome the challenge of access to finance, as commercial bank lending is becoming more streamlined and difficult to access.

### ***3) Engage multiple cooperating partners in helping to cushion the impact of downturns in commodity prices.***

Having a sector approach where there are multiple cooperation partners has also proved useful during the crisis. In Zambia, the CSSDP program is working with four mining corporations to help them integrate local suppliers into their supply chains, which is primarily based on the import of goods and services. The program conducted a diagnostic of the mines to understand current practices in relation to procuring from local suppliers. Through their continued commitment to the program, demonstrated by their attendance at monthly meetings organized by IFC as an honest broker to discuss how to help local suppliers, the mining companies have underscored their interest in this cause.

The program has benefited greatly from working with multiple partners, especially during the downturn in the market. The main benefits have been allowing for the whole industry to capitalize on economies of scale, enabling suppliers to take advantage of alternate markets, and allowing mines to share best practices on local procurement and sharing information on good and risky suppliers.

For example, following the closure of Chambishi Metals, one of the SME suppliers (Tonlex Investments) that was dependent on doing business with this mine has been significantly affected. However, the SME has been given a new injection of life from small contracts from other mining

companies after IFC's linkages program and mining partners visited the SME to discuss survival strategies. This has helped the company avoid total collapse and, in the process, retain a few jobs. Another SME on the IFC program—Dukon Paint, a paint manufacturer—was awarded a contract by one of the mining partners. However, another mine has asked the Dukon Paint to forward its samples in order to help increase their volumes, which are still hovering below production capacity. All such transactions have been made possible because of monthly meetings where information on such issues is available opportunities are discussed.

## Conclusion

The program continues to be relevant in the face of harsh market conditions. To date, the program has trained and assisted more than 300 entrepreneurs from about 150 SMEs in business management skills, quality assurance and management, and using the SME Toolkit. In addition, the project has helped to raise just under \$1.5 million for four of its clients by helping them do company diagnostics and prepare bankable business plans. The program is now helping SMEs with market diversification plans survive the impact of the global financial crisis. The program is preparing an exit plan before it reaches the end of its funding in June

2010. Although the mines have registered their interest in continuing the program, their commitment will depend on the price of copper next year. Kiwara Mining PLC, an IFC prospective investment client in Zambia, has also indicated its interest in building on what the program has done, should the investment take place.



### DISCLAIMER

IFC SmartLessons is an awards program to share lessons learned in development-oriented advisory services and investment operations. The findings, interpretations, and conclusions expressed in this paper are those of the author(s) and do not necessarily reflect the views of IFC or its partner organizations, the Executive Directors of The World Bank or the governments they represent. IFC does not assume any responsibility for the completeness or accuracy of the information contained in this document. Please see the terms and conditions at [www.ifc.org/smartlessons](http://www.ifc.org/smartlessons) or contact the program at [smartlessons@ifc.org](mailto:smartlessons@ifc.org).