

MANUFACTURING

SECTOR PROFILE



ZAMBIA DEVELOPMENT AGENCY

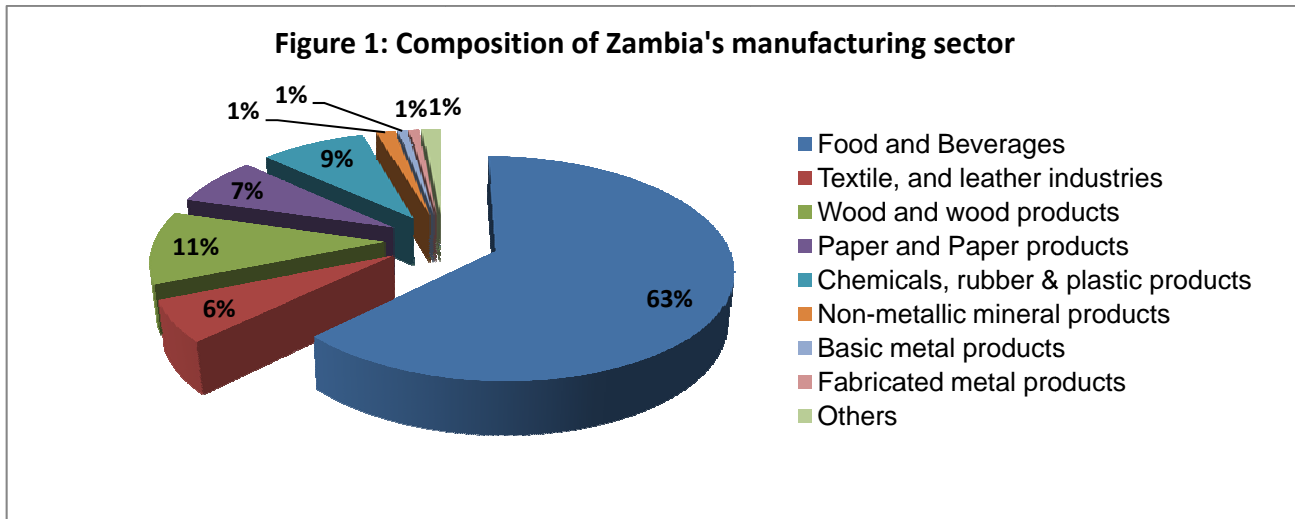


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1.0.OVERVIEW OF THE MANUFACTURING SECTOR IN ZAMBIA

The manufacturing sector in Zambia accounts for about 11 percent of the country's Gross Domestic Product (GDP) and has been growing at an average annual growth rate of three (3) percent in the last five years. Growth in the sector is largely driven by the agro processing (food and beverages), textiles and leather subsectors. Secondary processing of metals in another main activity in the sector, including the smelting and refining of copper, and this has led to the manufacturing of metal products. Fertilizers, chemicals, explosives and construction materials such as cement are also produced in the sector. Other activities include wood products and paper products.



The manufacturing activities in the country are undertaken by the private sector with government playing a proactive role. The sector is of vital importance in relation to the country's macroeconomic strategy for encouraging broad based economic growth. In this regard, the Government has put in place measures to support manufacturing activities, such as the establishment of Multi-Facility Economic Zones (MFEZs) and Industrial Parks (these are industrial areas for both export orientated and domestic orientated industries, with the necessary support infrastructure installed), and provision of sector-specific investment incentives. Government also promotes small and medium enterprises in rural and urban areas so as to enhance labor intensive light manufacturing activities in these areas.

The sector has attracted significant investment in recent years (foreign direct investment stocks in the sector totaled about US\$ 805.7 million as of 2011), and other than producing many different products, manufacturing also absorbs much of the output from other sectors such as agriculture, and also supplies inputs into the other sectors such as mining and construction.

Furthermore manufactured goods contribute an average of 25 percent to the country's total exports. The main exports of manufactured goods are; engineering products, processed and refined Foods chemical and pharmaceutical products, scrap metal and leather products.

The main destinations of Zambia's manufactured products are the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) trade blocs, with the Democratic Republic of Congo and the Republic of South Africa being the largest

markets. Other significant export markets outside Africa are China, Belgium, the Netherlands and Switzerland.

2.0. INVESTMENT POTENTIAL OF THE MANUFACTURING SECTOR

Zambia's manufacturing sector has considerable investment potential as the domestic economy is relatively well endowed with resource factors such as raw materials, required labor force, abundant land, water and rich minerals.

2.1. Domestic and Regional Demand for Manufactured Goods

Zambia has a high propensity for consumption of manufactured goods. Domestic demand factors provide ready local markets for manufactured goods while the country's membership to regional organizations such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) provide export markets in the region for the value added manufactured products.

Zambia's annual domestic demand for manufactured products exceeds US\$ 2,000 million per annum. Imports from COMESA region alone totaled US\$ 537 million over the three year period 2007 to 2009, while imports from the SADC region exceeded US\$ 5,600 million during the same period.

In the last three years a total of US\$ 906 million worth of manufactured products have been exported from Zambia to the COMESA region, while a total of 936 million worth of manufactured products have been exported to the SADC region from the country.

Furthermore there are also market opportunities in other international markets other than COMESA and SADC through Zambia's membership to the World Trade Organization (WTO), and through various market access agreements that the country has signed including; Economic Partnership Agreements (EPAs), the Africa Growth and Opportunity ACT - which provides trade preferences for quota and duty free entry into the United States of America (USA) for certain goods such as steel, and the Everything But Arms (EBA) initiative (in which all imports to the European Union from least developed countries such as Zambia are duty and quota free).

2.2 Priority Areas for Investment in the Manufacturing Sector

The priority areas for investment in the sector include; food processing, textiles and clothing, mineral processing, chemical products, engineering, leather products, electrical goods pharmaceutical products and packaging materials.

2.2.1. Processed and Refined Foods and Beverages

There is vast potential investment potential for food processing in the country, covering both large and small scale industries. Specific areas of interest include; the growing and processing of oil seeds, the downstream processing of livestock products especially in the beef and dairy industries, and there is also potential for fish processing activities such as canning.

The processing of grocery products such as cold meats, biscuits, tinned foods, jam and cheese is also largely under exploited. Furthermore crops such as paprika have been gaining in prominence as crops with export potential and these have a low capital inputs requirement to process.

The other potential investment opportunities in the sub sector are; the sugar industry, grain milling (both maize and wheat), carbonated soft drinks production, and clear and opaque beer production.

2.2.2. Textiles and Clothing

Textile, garment and apparel manufacturing have a very high potential in Zambia. Investment opportunities in textiles manufacturing exist under the Manufacturing Under Bond Scheme (MUBS) and in the Multi Facility Economic Zones.

Cotton is grown, ginned and spun in Zambia at industrial sites with state of the art spinning, weaving and processing factories as well as warehouses. Products include cotton yarn and grey cloth of world class of world class quality.

The European Union is a major export market for the textile products from Zambia, with South Africa and Mauritius being other potential markets. In addition Zambia qualifies for the USA Africa Growth Opportunity Act (AGOA), and Zambian textiles already enter the United States market.

2.2.3. Mineral Processing

The secondary processing of minerals is gaining momentum within the manufacturing sector. Government incentives support new businesses that process copper rather than exporting the raw copper.

There is scope for investment in the manufacture of copper wire and other copper products, such as copper plate and tubing, and also for increased copper rod and cables manufacturing activities which are already being undertaken in the country (and account for a significant proportion of Zambia's nontraditional exports.

The cutting and polishing of gemstones for export also has great potential value, as does the manufacturing of jewelry.

2.2.4. Chemical Products

The processing of minerals for the agro industry is another area in which demand is fast growing in Zambia. Zambia contains many agricultural minerals. Peat and limestone deposits are available for the manufacture soil conditioners while phosphates are also available for the production of fertilizers.

Zambia currently imports about \$200 million worth of fertilizers annually, most of this is imported by the government in order to subsidise the small scale farmers in rural areas. The limited government subsidies on agriculture inputs and the high cost of conventional water soluble P fertilizers increases the cost of agriculture production. This calls for cheaper

alternative sources of P fertilizers for crop production to mitigate the problems of scarcity and reduce the high importation costs.

Major investment opportunities exist in the production of fertilizers due to the presence of feasible sources of P fertilizers in the following areas

- a) the Chilembwe deposits near Petauke district estimated at 1.6 million tonnes,
- b) Mumbwa deposits at 500,000 tonnes,
- c) Nkombwe (near Isoka district) at 500 million tonnes; and
- d) Kaluwe (near Luangwa) estimated at 207 million tonnes.

Establishment of rural based plants in any of the areas mentioned above would contribute to the realization of food security, increase agricultural productivity and improve the quality of life of the people.

The country is also endowed with mineral deposits for the production of other chemical products such as cement, adhesives and explosives, as well as; glass, batteries, argon gas, sulphuric acid, paints, cosmetics, soaps and detergents.

2.2.5. Engineering and Metal Works

Zambia has a variety of minerals which are exported as raw materials. At present there is very little value addition being made to these mineral exports. Hence there are massive investment opportunities in processing copper, iron ore and steel, cobalt and other minerals into intermediate and finished engineering products.

Engineering products have a ready local market from the mines (for the supply of mining equipment), construction companies, and other industries. The manufacture of engineering products includes metal items such as window frames, doors and roofing materials, as well as nuts and bolts, as well as light engineering products such as; cable carbon brushes, switch gears, pipes and rail sleepers.

Furthermore Zambia imports all major spare parts required for machinery and therefore investment opportunities also exist in the local manufacture of spare parts for various industrial machines.

2.2.6. Leather Products

The country has constant supply of by-products of the livestock industry in form of hides and skins, for processing into finished leather products such as bags, footwear and leather garments. While most of the hides and skins come from cattle, there is a growing supply of crocodile skins for the leather products industry.

Leather products have a ready market in the international and regional markets. In fact Zambian leather products also qualify to enter the United States market under the USA - Africa Growth Opportunity Act (AGOA).

2.2.7. Electrical Appliances

Enormous potential exists in the manufacture of electrical appliances such as Refrigerators, Air Conditioners, Computers, Transformers, Television Sets, Stoves, Fans and other goods. Most of these products are currently imported from within the Southern African region, the Far East and Europe. This potential is evident from the high demand for imports of electronic goods in the country (about US\$ 40 million per annum).

2.2.8. Pharmaceutical Products

Zambia and her surrounding neighbors have relatively high burdens of diseases that require high consumption of pharmaceutical products. Malaria, HIV/AIDS and other ailments have constantly triggered demand on these products, which are mostly sourced outside Africa.

There are a limited number of manufacturing companies and pharmaceutical trading companies in the country. Most of these manufacturing companies are engaged in the manufacturing of basic pharmaceutical formulations (medicines). The majority of essential health drugs are still being imported. Therefore there is scope for new investments in the manufacture of pharmaceutical products such as moringa and atemisia for the production of coatem, in the country.

2.2.9. Packing Materials

Investment opportunities also exist in packaging materials to supply other industries such as; the food processing industry (for packaging material of grain milling, products, sugar, opaque beer, dairy products, cold meats and canned foods) and the chemical products industry (for packaging of; soaps, detergents, cement and fertilizers).

Other industries that require packaging materials are; leather products, electrical appliances and pharmaceuticals.

Currently most packaging materials used by manufacturing companies in the country are imported from the Republic of South Africa, China, India and Europe. The companies spend about US\$ 30 million annually on the imports of the packaging materials – this is a clear indication for the huge local demand for these materials in the country and the investment opportunities arising out of this demand.

3.0. INVESTMENT INCENTIVES IN THE MANUFACTURING SECTOR

The investment incentives in the manufacturing sector include;

3.1. Multi Facility Economic Zones / Priority Sector Incentives

Under the Zambia Development Act, a number of incentives have been provided for in the appropriate tax legislations for the investors operating in the priority sectors and/or MFEZ. Among the incentives provided include;

- Zero per cent tax rate on dividends for a period of five years from the year of first declaration of dividends.

- Zero percent tax rate on profits for the first five years for years six to eight, 50 per cent of the profits will be taxed, and for years nine to ten, 75 per cent of the profits will be taxed
- Zero per cent import duty rate on raw materials, capital goods, machinery including trucks and specialized motor vehicles for five years.
- Deferment of VAT on Machinery and equipment including trucks and specialized motor vehicles.

Note:

The priority sectors are the manufacture of: machinery and machinery components iron and steel products, electrical and electronic products and components and parts thereof; chemicals and petrochemicals, pharmaceutical and related products, wood and wood products, Palm oil and their derivatives, pulp, paper and paper board, textile and textile products, transport equipment, component & accessories, clay-based, sand-based and other non-metallic mineral products, plastic products, professional medical, scientific, and measuring devices/parts, rubber products, leather & leather products, packaging & printing materials, fertilizer and cement.

3.2. Other Incentives

The other investment incentives in the sector are;

- Implements, machinery and plant qualify for wear and tear allowance of 50% of the cost per year in the first two years.
- Buildings used for manufacturing qualify for wear and tear allowance of 10% of cost in first year and 5% of cost per year in subsequent years.
- Machinery for manufacturing qualifies for wear and tear allowance of 50% per annum on the first two years.
- Customs duty exemption on most capital machinery and equipment for manufacturing
- Reduced duty on, or duty free imports of certain raw materials.
- Dividends declared by companies assembling motor vehicles, motor cycles and bicycles are exempt for the first five years of initial declaration of dividends.
- Income from chemical manufacturing of fertilizers is taxed at a reduced rate of 15%
- VAT Manufacturing Sector-Specific Incentives are as follows;
 - Refund of Zambian VAT on purchase and export of Zambian products by non-resident businesses under the commercial exporters scheme;
 - Input tax claim for three months prior to registration for businesses that have already commenced trading.
 - Input tax claim for two years prior to commencement of production.
 - Import VAT deferment on eligible plant/machinery and raw materials.

4.0. USEFUL CONTACTS

NAME	ADDRESS	TELEPHONE	FAX	EMAIL
1. Zambia Development Agency (ZDA)	P.O. Box 30819, Lusaka	260-211-220177	260-211-293223	info@zda.org.zm www.zda.org.zm
2. Ministry of Commerce, Trade and Industry (MCTI)	P.O. Box 31968, Lusaka	260-211-228301-9	260-211-226984	mcti@gov.org.zm www.mcti.gov.org.zm
3. Patents and Companies Registration Agency (PACRA)	P.O. Box 32020, Lusaka	260-211-255127	260-211-255426	pacra@zamnet.zm www.pacra.org.zm
4. Zambia Revenue Authority (ZRA)	P.O. Box 35710, Lusaka	260-211-223754	260-211-222717	advice@zra.org.zm www.zra.org.zm
5. Zambia Environmental Management Agency (ZEMA)	P.O. Box 35131, Lusaka	260-211-254130	260-211-254164	ecz@necz.org.zm www.zema.org.zm
6. Zambia Association of Chambers of Commerce and Industry (ZACCI)	P.O. Box 30844, Lusaka	260-211-252483 / 253020	260-211-253020	zacci@zamnet.zm www.zambiz.co.zm
7. Zambia Association of Manufacturers (ZAM)	P.O. Box 31992, Lusaka	260-211-229364	260-211-229371	zam@zamnet.zm www.zam.co.zm

5.0. APPENDICES

Appendix A

Domestic Demand - Imports of Manufactured Goods from Zambia to COMESA and SADC (US\$ '000')

PRODUCT	COMESA			SADC		
	2010	2011	2012	2010	2011	2012
Electrical, electronic equipment	8899	15805	53741	109849	160327	196232
Plastics and articles thereof	11034	12512	15502	116313	151528	174175
Soaps, lubricants, waxes, candles, modelling pastes	9976	10447	11964	21960	33381	36417
Fertilizers	612	10117	11695	133381	158635	169145
Articles of iron or steel	5371	12896	10047	101443	149937	199413
Furniture, lighting, signs, prefabricated buildings	2896	4209	8512	29664	48867	43491
Tobacco and manufactured tobacco substitutes	4823	6624	8300	593	862	1099
Iron and steel	9012	7809	8145	108877	170983	181043
Wood and articles of wood, wood charcoal	4153	4475	7637	10319	12227	18219
Rubber and articles thereof	8313	4080	4676	50780	62615	75647
Pharmaceutical products	1727	3047	3838	36950	32078	50812
Aluminum and articles thereof	2372	2725	3266			
Miscellaneous chemical products	2024	1984	2783	61837	76829	103864
Cereal, flour, starch, milk preparations and products	1802	2440	2708			
Beverages, spirits and vinegar	2184	2844	2359	15344	27474	35933
Milling products, malt, starches, inulin, wheat gluten	881	1157	2341	3228	4423	13898
Sugars and sugar confectionery	739	1131	1808	3658	3813	3752
Coffee, tea, mate and spices	810	1070	1739	4245	5553	6172
Dairy products, eggs, honey, edible animal product	1586	1308	1692	12745	9861	11291
Cereals	537	343	918			
Ceramic products	384	482	592	10983	16294	16606
Cotton	697	468	448	1044	786	1199
Cocoa and cocoa preparations	395	86	402	4360	5853	6287
Articles of leather, animal gut, harness, travel goods	398	158	301	2161	2364	2887
Copper and articles thereof	238346	195625	254	240585	200642	12982

Appendix B

Regional Demand - Exports of Manufactured Goods from Zambia to COMESA and SADC (US\$ '000')

PRODUCT	COMESA			SADC		
	2010	2011	2012	2010	2011	2012
Copper and articles thereof	241219	351528	317365	261280	414889	263020
Cereals	28328	145047	272891	34178	179113	365053
Wood and articles of wood, wood charcoal	9288	6383	83781	10224	7149	85826
Tobacco and manufactured tobacco substitutes	126372	66537	76432	128490	66009	76718
Soaps, lubricants, waxes, candles, modeling pastes	9099	20009	63805	9359	20024	63859
Mineral fuels, oils, distillation products, etc	32807	17535	48203	32845	16385	52320
Sugars and sugar confectionery	76186	85502	31961	64895	79065	23238
Salt, sulphur, earth, stone, plaster, lime and cement	109273	107611	25164	87480	88435	13648
Iron and steel	16521	28604	21788	20721	39403	39357
Plastics and articles thereof	16985	4740	17742	17590	5445	18061
Cotton	6575	30492	17372	36187	59555	50781
Cereal, flour, starch, milk preparations and products	16610	12782	8064	16642	12858	42037
Rubber and articles thereof	7759	2181	1472	8485	2194	1553
Cocoa and cocoa preparations	1244	1356	913	1363	1609	1107
Milling products, malt, starches, insulin, wheat gluten	30233	57845	534	30819	59194	2438
Pharmaceutical products	1950	1141	204	1842	1166	193
Glass and glassware	395	71	194	407	97	222
Coffee, tea, mate and spices	1205	74	87	1649	108	120
Ceramic products	875	214	65	874	385	77
Miscellaneous manufactured articles	235	20	18	240	28	16
Fertilizers	9388	1861	11	9421	2189	133