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New European Business Confederation

Full interview to Her Excellency Ms. Grace M. Mutale Kabwe, Ambassador of the Republic of Zambia in Belgium

What is it that makes Zambia one of the most attractive investment destinations to European companies and beyond?

Zambia has vast resource endowment in terms of land, labour and water, indicating the high potential to expand and/or excel development. Zambia has a total land area of 75 million hectares (752,000 square km), out of which 58% (42 million hectares) is classified as medium to high potential for agricultural production.

It is also Africa's largest producer of Copper and Cobalt. Zambia stands out as one of the prime tourism destinations in Africa offering a wealth of natural tourism assets – waterfalls, lakes and rivers holding about 35% of Southern Africa's water.

Being a member of a number of regional and international groupings, make Zambia strategic both in its location and abundance in natural resource. These include the Common Market for Eastern and Southern Africa (COMESA), which is currently a customs union, and the Free Trade Areas of the Southern Africa Development Community (SADC).

Could you outline sectors that offer the most investment potential?

Currently the following sectors offer the most potential in terms of investment incentives and potential for growth and profitability:

1) Agriculture:

Zambia is endowed with a large land resource base of 42 million hectares of which only 1.5 million hectares is cultivated every year. There are abundant water resources for irrigation and the country has 40 percent of the water in Central and Southern Africa.

The agricultural sector continues to be the backbone of the Zambian economy as it contributes to the growth of the economy and also to exports. Primary agriculture contribute about 35 percent to the country's total non-traditional exports (all the country's exports other than copper and cobalt) and about 10 per cent of the total export earnings for the country.

The main priority crops for investment in the country are; wheat, sugar, cotton, tobacco, coffee, tea and maize. There are also other crops such as cow peas, groundnuts, cassava, rice, sorghum, soya beans, sunflower, and dry beans with enormous investment potential.

The potential for agro-processing industrial development in Zambia is largely associated to the relative abundance of agricultural raw materials and low-cost labour. The most suitable industries therefore are those that make intensive use of these abundant raw materials and unskilled labour.

Agro processing Opportunities in Zambia include:

- Peanut butter production
- Cashew nut processing
- Animal or Stock feed production
- Cassava Processing (food and other industrial products)
- Cashew nut Processing
- Grain Milling (Rice, Maize, Wheat etc.)
- Edible oil Production
- Fruit Canning and Juice Extraction
- Meat, dairy, leather and leather products
- Fish canning and fish meal production
- Cotton Spinning and Textiles
- Bio-diesel production and ethanol production
- Honey processing

Investment Opportunities in the Fisheries Sector include

I. Cold storage and fish Haulage

The long distance between catching and consumption areas and limited cold storage and transport facilities creates immense opportunities in cold storage and haulage of fresh fish using refrigerated trucks.

II. Aqua-culture

Zambia is a country richly endowed with natural resources ideally suited to aquaculture production.

III. Education

Training in fisheries aims at meeting the aspirations of the industry and to provide skilled workers capable of participating in development programmes.

IV. Fish Ornaments

The rare and beautiful fish which are less than 20 centimetres long can be bred and kept in aquariums for sale

2) Tourism

Zambia's tourism sector is currently one of the country's growth potential areas. It has been given the non-traditional export status and is receiving a lot of support from the Government by way of infrastructure development, promotion of increased private sector participation, as well as attractive tax incentives for all investments in the sector.

Tourism as an industry is seen to offer opportunity for revenue generation in both the private and public sectors, whilst at the same time, stimulating economic activities that deliver conservation, social and financial benefit to the communities where the facilities are based, as well as the nation.

Zambia stands out as one of the prime tourism destinations in Africa offering a wealth of natural tourism assets – waterfalls, lakes and rivers holding about 35% of Southern Africa's total natural water resource, 'wildlife protected areas' occupying about 10% of the country's total land area, and a tropical climate – a passport to sunshine almost throughout the year.

3) Energy

Zambia's energy sources include: electricity, petroleum, coal, biomass, and renewable energy. It is only petroleum which is wholly imported in the country, while the country is basically self-sufficient in all the other energy resources, as it has substantial unexploited reserves of these forms of energy. The country's economy has been growing at an average of 5 per cent per year over the past 10 years and demand for energy has also been rising.

The demand for the most important energy source in the country (electricity) has been growing at an average of about three per cent per year mainly due to the increased economic activity in the country especially in the agriculture, manufacturing and mining sectors, as well as increased activity in the region. Furthermore the country's growing economy has also lead to an increase in the demand for the other forms of energy such as petroleum and coal, as these are key factors of production and operations in most economic sectors. The demand for renewable energies has also seen significant growth in the recent years as the market explores alternative sources of energy, with renewable energies proving to be a viable alternative.

4) Mining

Zambia is Africa's largest producer of copper and cobalt. Although copper production was affected by low copper prices in the late 1990s, copper production has been increased since 2000. It increased to 572,793 tonnes in 2007 from a low of 256,884 tonnes in 2000, representing an increase of over 100%. The rise in copper production over the years is attributed to investment in rehabilitation of infrastructure and technological innovations in existing mines, the coming on board of new mines and the increase in existing mines,

the coming on board of new mines and the increase in small-scale copper mining activities. Copper production has been increasing over the recent past from 575,000 metric tonnes in 2008 to 665,000 metric tonnes in 2009 and to about 700,000 metric tonnes in 2010. This has been due to increased capacity utilisation facilitated by the continued increase in metal prices on the international markets.

The Zambia Development Agency Act provides for incentives for companies investing substantial amounts in the mining sector in the country. The Act provides for the investment thresholds that investors have to meet in order to qualify for fiscal and non-fiscal incentives. Currently the threshold is of US\$ 500,000 and above qualify for the incentives.

5) Infrastructure

Infrastructure development, is one of the Government of Zambia's priority areas, and is upheld in both the country's Fifth National Development Plan, and the Sixth National Development Plan, as well as in the National Vision 2030.

Infrastructure is an essential driver of competitiveness which is critical for ensuring the effective functioning of any economy and the country has basic reliable infrastructure in terms of airports, road networks, railway lines, energy generation and transmission installations and telecommunication infrastructure.

6) Manufacturing

The manufacturing sector in Zambia accounts for about 11 per cent of the country's Gross Domestic Product (GDP) and has been growing at an average annual growth rate of three per cent 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. Fertilisers, 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 labour intensive light manufacturing activities in these areas.

Zambia has seen tremendous economic growth; how has this been achieved over the years?

Indeed Zambia has seen tremendous growth in the past years. The growth in real GDP has been largely driven by manufacturing, mining, construction, transport, communications and the public sector. Copper remains the country's mainstay, contributing about 70.0% to export earnings. However, over the last few years non-traditional exports have grown substantially, and has also been one of the main reasons for Zambia's tremendous growth.

Zambia has had a long period of political stability. With strong growth in the last decade the country has reached lower middle income status. Investor confidence has been high as evidenced in the successful issue of two Euro bonds.

Zambia has had a decade of rapid economic growth. A combination of prudent macroeconomic management, market liberalisation policies, and steep increase in copper prices helped drive investments in the copper industry and related infrastructure to achieve an average annual growth of about 6.4% during the last decade.

With regard to value addition, what is Zambia's strategic focus and which sectors are best placed for value addition?

There is need for value addition if our economy is to perform better, most of our products are exported in the raw form and we cannot perform well as a country if we do not add value to Zambian products. The Government of the Republic of Zambia places great importance to value addition and creating an enabling environment to enhance value addition in our economy. The Government is promoting high level investment in value-addition to enhance business linkages in the country's economy. It is through value-addition that Zambia could be able to enhance linkages at various levels of the economy.

Some of the Sectors that offer conducive incentives for investment and potential for growth include: manufacturing, agriculture, and mining.

The agriculture sector can be harnessed to become the leading sector for economic transformation and employment creation. Over the past few years, agri-business in Zambia has demonstrated consistent growth, particularly in livestock production, providing linkages to the dairy, beef and leather industries. The Zambia Export Growers Association assists farmers who grow vegetables Zambia and flowers, exporting their products to Europe. Farmers lump their products together through storage facilities provided by the association, which later handles transport and marketing of their products to Europe and other markets. Out-grower schemes help small-scale farmers gain

access to markets, while there is technological transfer from large-scale farmers. Zambia Sugar is one such company. It obtains 30% of its throughput from larger private growers, while 10% is from small-scale farmers. In turn, small-scale growers receive training, extension services and benefit from technological transfer. Another example is honey production. Beekeepers form cooperatives among out-grower schemes, provided with buckets and registered as members to ensure traceability of the product while they receive training. The value addition is significant, with more than 10.000 beekeepers occupied in major production areas of north-western Zambia.

The mining sector has attracted investment in excess of USD 8 billion since the year 2000, creating over 80,000 jobs by the year 2013 up from 27,000 jobs in the year 2000. It is projected that investments in the mining sector will reach approximately USD 15 billion on account of new projects under implementation and/or exploration by the year 2017 if the international metal prices hold above current levels recorded.

Zambia's endowment of mineral resources is substantial and the mineral wealth includes metals, gemstones, industrial minerals, agricultural, building and energy minerals. Production of metallic minerals dominates the mining sector. Nevertheless, the full potential of these and other known mineral deposits is yet to be realised creating greater exploration opportunities.

In order to stimulate value addition and industrialisation, as well as increase the manufacturing sectors share of GDP from its current levels (below 10%), the country has embarked upon the establishment of Multi-Facility Economic Zones (MFEZs). These zones blend the best features of free trade zones, export processing zones and industrial parks. They create the administrative infrastructure, rules and regulations to support both export and domestic-oriented industries. The zones are designed to support firm clusters that can benefit from spatial proximity throughout various industrial processes, from primary production, processing, marketing and sales and ultimately distribution.

Two MFEZs have been developed and are already operational. Four others are still at early development stages. The parks are located in the Copperbelt, North-Western and Lusaka regions. Chambishi MFEZ in the Copperbelt is focused mainly on the copper supply chain and houses both heavy and light industries, including copper smelting, manufacture of copper wire and cables, household appliances such as stoves, motor parts and agro-processing. More than 10 enterprises have been established, creating over 3,500 jobs. Copper mining is already creating higher value through smelting and refining copper into cathodes for exports. The Chambishi MFEZ is an example of this. Gemstone mining is another, with latent integration into the Global Value Chain. In an attempt to realise this potential, the country has made it mandatory that all locally extracted gemstones be auctioned in the country in order to stimulate beneficiation as well as local market development.

What fiscal incentives does Zambia offer to potential investors, taking into account investment guarantees and protection?

Zambia offers Investment guarantees and protection against state nationalization through the Certificate of Registration for your investment under the ZDA Act of 2006. It offers Guarantees through Zambia's participation in the World Bank Group's Multilateral Investment Guarantee Agency.

Some of the Fiscal incentives in some priority sectors include:

Agriculture:

- Corporation tax at 15 per cent on income from farming and non-traditional exports;
- Farm works allowance of 100 per cent of expenditure on stumping, clearing, prevention of soil erosion, bore holes, aerial and geophysical surveys and water conservation
- Development allowance of 10 per cent of the cost of capital expenditure on growing of coffee, banana plants, citrus fruits or similar plants;
- Farm improvement allowance - capital expenditure incurred on farm improvement is allowable in the year of incurring the expenditure;
- Dividends paid out of farming profits are exempt for the first five years the distributing company commences business;
- Carry Forward Losses for 5 years

Infrastructure:

Fiscal Incentives and Qualifying Thresholds

The Zambia Development Agency (ZDA) Act provides for investment thresholds that have to be met to qualify for fiscal and non-fiscal incentives. Projects that qualify may be new or existing ones undergoing expansion or modernization. These are the categories of investors who can be considered under the ZDA Act.

Investors who invest not less than US\$500,000 in the Multi Facility Economic Zone, an Industrial Park, a Priority Sector, and invest in a Rural Enterprise under the ZDA Act, are entitled to the following fiscal incentives:

1. Zero percent tax rate on dividends for 5 years from year of first declaration of dividends.
2. Zero percent tax on profits for 5 years from the first year of operation.
3. Zero percent import duty rate on capital goods, machinery including specialized motor vehicles for five year

Why is Zambia different from other countries, be, at regional, continental and even global level when it comes to doing business?

Zambia can be described as most competitive in the metals sector. The major product lines in this regard being copper and cobalt products. As alluded to earlier, Zambia has

had a long period of political stability. With strong growth in the last decade the country has reached lower middle income status. It has enjoyed Political stability since attaining independence in 1964, and the country is one of Africa's most peaceful, tolerant and democratic states with extremely low levels of crime.

One aspect of Zambia that stands out in the Sub-Saharan region is its geographic location. Its central location gives it access to regional markets. Being a member of a number of regional and international groupings, make Zambia strategic both in its location and abundance in natural resource. These include the Common Market for Eastern and Southern Africa (COMESA), which is currently a customs union, and the Southern Africa Development Community (SADC) Free Trade Areas (FTA).

What advice would you give to the business community in the EU and beyond, particularly SMEs seeking to invest in Zambia?

Zambia is a peaceful country and has experienced sustained peace and stability over the 50 Years. The country recently celebrated 50 years of Independence. The Golden Jubilee also marked 50 Years of Peace, Stability and sustained economic Growth. The Republic of Zambia takes pride in this achievement and this has been achieved through the hard work of its people.

Doing business in Africa has sometimes been tagged as being frustrating and at times too bureaucratic. We, as Zambia are proud to mention that, the Government of the Republic of Zambia has taken several strides to easing the process of setting up a business for both local and foreign entities.

The Patents and Companies Registration Agency (PACRA) is a semi-autonomous executive agency of the Zambian Ministry of Commerce, Trade and Industry. Its principal functions are to operate a legal system for registration and protection of commercial and industrial property and to serve as a legal depository of the information tendered for registration. Through PACRA the Government of the Republic of Zambia has streamlined and modernised the registration of business entities and made the process of registration of businesses easier and faster.

The Zambia Development Agency (ZDA) was established in 2006 by an Act of Parliament and became operational in January 2007 after the amalgamation of five statutory bodies that hitherto operated independently to foster economic growth and development by promoting trade and investment through an efficient, effective and coordinated private sector led economic development strategy. The Zambia Development Agency(ZDA) promotes trade and investment for economic development. The ZDA's primary mandate is to effectively and efficiently promote and facilitate investment, trade and competitiveness of businesses in Zambia. Therefore foreign companies seeking to establish their business in Zambia and seek advice and facilitation in this process would contact the Zambia Development Agency as their first contact point.

The Embassy of the Republic of Zambia here in Brussels stands ready to facilitate business opportunities between companies in Belgium and Zambia. My team and I are open to visits and enquiries on business and investment opportunities as well as linking companies with the relevant contacts in Zambia to facilitate the promotion of trade between Belgium and Zambia.

Relevant contacts:

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