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ZAMBIA: AN OVERVIEW

Zambia is politically stable, making it the 3rd most peaceful country in Sub-Saharan Africa (SSA). The country enjoys sustained economic growth and relative macroeconomic stability, developments that have enabled it to continue attracting foreign direct investment (FDI). Zambia also enjoys a unique geolocation that gives it the best proximity and access to the Democratic Republic of the Congo, Tanzania, Malawi, Mozambique, Zimbabwe, Botswana, Namibia and Angola. Zambia's abundant and underused land and water resources enable it to produce ample and best-quality cottonseed for textile and apparel manufacturing, making it the 3rd largest cotton producer in Southern Africa and one of the best hubs for new investments in textile and apparel manufacturing. Zambia also enjoys a young and fast-growing population and rapid urbanization, which are fuelling demand for textile and apparel products.

for Eastern and Southern Africa (COMESA) (a 470 million people and \$600 billion market) and to the Southern African Development Community (SADC) (a 337 million people and \$706 billion market), both of which are characterized by huge textile and clothing imports. Duty-free access to regional, continental, European Union (EU), the United States of America and other countries gives Zambia preferential export trade opportunities that prospective investors in textile and apparel can also exploit. Ongoing policy reforms have also resulted in a more investor-friendly business environment, making Zambia 2nd in ease of doing business and 2nd best investment destination in Southern Africa (World Bank, 2019).

Advantage Zambia

Zambia offers a number of operational and cost advantages to prospective investors in textile and apparel. These include:

- Easy access to competitively priced land for cotton, textiles and apparel (CTA) processing in multi-facility economic zones with reliable and competitively priced electricity,¹ water, high-speed internet services and other amenities;
- Ample and best-quality raw materials (cottonseed) availability;
- A 60% underused/spare ginning capacity that gives Zambia the ability to double or more its seed cotton output and to offer toll ginning opportunities to new investors with own seed cotton;
- Competitively priced (\$1.2 per hour on average) and highly available labour. A good proportion of the available labour is also skilled and experienced in textiles and apparel manufacturing, having worked for the closed textiles and clothing companies;
- Growing population (3% p.a.) and rapid urbanization (4%) fuelling domestic apparel demand; and
- Strategic geolocation and best proximity to East and Southern African textiles and apparel export markets.

Raw material scenario

On average, Zambia produces:

- Approximately 120,000 tons of cottonseed per annum; and
- From 45,000–50,000 tons of lint per annum, making it the 3rd largest cotton producer in Southern Africa.

| Key facts | |
|-------------------------|----------------|
| Capital city: | Lusaka |
| Population: | 16.4 million |
| Working age population: | 9.1 million |
| Total labour force: | 3.4 million |
| Youth population: | 8.02 million |
| Youth employed: | 1.6 million |
| GDP: | \$25.8 billion |
| Exports (2017): | \$9.7 billion |
| Imports (2017): | \$8.5 billion |
| FDI (2017): | \$865 million |
| Govt. expenditure: | \$7.7 billion |
| Govt. revenue: | \$6.9 billion |

*Sources: CSO, 2018; World Bank, 2018.

WHY ZAMBIA?

Increasing and unmet local textile and clothing demand is driving Zambia's textile and apparel imports, which could easily be substituted with locally manufactured products. Zambia's unique geolocation gives it the best connectivity to the Common Market

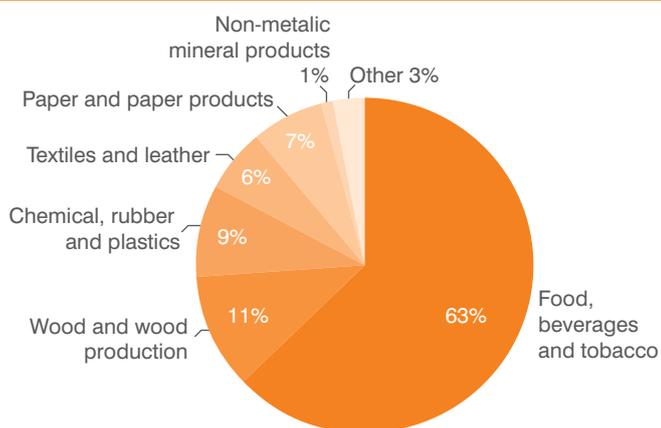
¹ Electricity tariffs in Zambia are lower (6.4c/kW/hr) than Republic of South Africa (7.2c/kW/hr), the Kingdom of eSwatini (13.7c) and the Republic of Mauritius (16.8c).

However, due to limited textiles, more than 95% of the produced cotton lint is exported. Zambia also imports \$72 million worth of textile products (fabrics) per annum.

Manufacturing value chain

- Despite its huge potential, Zambia's manufacturing sector only contributes 8%–10% of national gross domestic product (GDP).
- Limited investments is affecting the local manufacturing sector's productivity and competitiveness.
- The textile and leather subsector contributes 6% to Zambia's total manufacturing sector value added.
- Government plans to increase manufacturing sector growth rates from 5% to 20% p.a. through cotton, textile and apparel, amongst other subsectors.
- Overall, Zambia wants to increase its manufacturing sector contribution to GDP from 8% to 15% by 2027.
- More investments are thus required in cotton, textile and apparel to achieve desired manufacturing sector growth.

Figure 1: Output shares within the Zambian manufacturing sector (2014)



Source: CSO, 2014.

CTA value chain

- Despite ample raw materials and a conducive policy and business environment, the Zambian textile and apparel sector is underperforming and uncompetitive.
- Increased foreign direct investments are needed to help revive the local textile and apparel sector.
- Absence of modern spinning has led to Zambia exporting almost all its lint (48,000 tons p.a.) and importing yarn expensively.
- Limited weaving and knitting and weak local apparel manufacturing has also led to Zambia importing fabrics and most of its apparel products.
- A weak local CTA value chain has further led to its diminished contribution to national GDP (at 6% currently).
- Prior to the 1990s, Zambia had a vibrant textile and clothing industry with more than 140 companies employing 25,000 people. At peak, local textiles and apparel companies used 55% of Zambia's cotton lint.
- Zambia has developed an investor-friendly business environment supportive of new investments in CTA.
- As a result, cottonseed output has increased from 50,000 tons to 120,000 tons p.a. on average.
- Ginning capacity has also increased from 100,000 tons p.a. prior to liberalization to 350,000–400,000 tons p.a., resulting in a 60% spare ginning capacity.

- These developments have made Zambia the 3rd largest cotton producer in Southern Africa and the best destination for new FDI in modern textile and apparel manufacturing.

Land availability

- Zambia is endowed with abundant and underused land. Only 6 million hectares (14%) of the total 43 million hectares of arable land of medium to high agricultural potential are being used.
- Approximately 2.75 million hectares (6%) of arable land is irrigable and 523,000 hectares (19%) is of highest irrigation potential.
- Zambia holds up to 40% of Southern Africa's fresh waters. Main water bodies include the Zambezi, Kafue, Luangwa and Chambeshi Rivers, and Tanganyika, Mweru, Mweru Wa Ntipa, Bangweulu and Kariba lakes.
- Eleven farm blocks with a total of 1 million hectares (2%) of arable land is open for agricultural expansion.
- This gives Zambia close to 1 million hectares of land for additional crops and livestock to meet the increasing food demand.

Global and regional market access

- In 2018, Zambia exported and imported goods valued at \$9.05 billion and \$9.32 billion respectively.
- Intra-Africa exports and imports were \$1.81 billion and \$4.9 billion of global exports and imports respectively.
- Zambia's CTA intra-Africa trade has remained insignificant. China's textile and apparel exports into SSA increased by 8% from approximately 33% in 2010 to 41% in 2017. Intra-SSA textile and apparel trade increased by 4% from 15% in 2010 to 19% in 2017.
- In 2017, Zambia formally imported \$72 million worth of textile products² against \$3.4 million worth of exports.
- In 2017, Zambia imported \$43.2 million worth of apparel³ against \$0.12 million worth of exports. Zambia also imported \$16.2 million worth of second-hand clothes.
- As a member of COMESA and SADC, most goods from these regional economic communities (RECs) enter Zambia duty free.

Business environment

Zambia has a conducive business environment with a well-established and functioning banking sector, an investor-friendly legal and regulatory framework, good government support and improving ease of doing business.

Banking Sector

- A well-developed banking sector with good branch network by 18 licensed commercial banks (eight locally owned, eight foreign-owned and two government and foreign jointly owned banks).
- All banks are subject to regulatory requirements (prudential position, consumer protection and market conduct) as a safeguard for financial system soundness and stability.
- Limited credit is available in both local and major currencies to corporates and international firms of good reputation. Banks are, however, unable to lend more than 25% of their primary capital.

Legal and regulatory framework

- The ZDA Act provides for the promotion and facilitation of foreign and local investors in manufacturing, tourism, energy, agriculture and agroprocessing, mining and infrastructure in Zambia.
- All companies are regulated by the Companies Act, Cap. 388 of the Laws of Zambia.

Table 1: Zambia's textile and clothing imports, sources, exports and destinations (USD '000)

| Global total, source and/or destination | 2012 (\$'000) | | 2013 (\$'000) | | 2014 (\$'000) | | 2015 (\$'000) | | 2017 (\$'000) | |
|---|---------------|------------|---------------|------------|---------------|------------|---------------|------------|---------------|------------|
| | Exports | Imports |
| Global total | 136 541.96 | 129 605.24 | 115 282.94 | 158 370.20 | 73 501.11 | 142 567.41 | 59 515.29 | 113 791.74 | 41 977.64 | 133 416.88 |
| Sub-Saharan Africa | 73 468.87 | 52 464.20 | 74 626.09 | 61 408.07 | 32 756.08 | 79 442.54 | 34 986.39 | 56 412.18 | 36 595.81 | 56 382.51 |
| Europe & Central Asia | 37 240.81 | 19 301.86 | 25 789.85 | 23 354.75 | 21 557.77 | 8 478.26 | 5 984.36 | 7 387.32 | 649.63 | 10 553.51 |
| East Asia & Pacific | 24 375.71 | 20 738.26 | 14 201.74 | 31 681.47 | 15 428.83 | 25 520.67 | 17 615.27 | 16 617.17 | 4 623.08 | 38 306.36 |
| South Asia | 1 369.30 | 12 645.74 | 37.17 | 16 422.27 | 3 703.25 | 12 242.07 | 57.75 | 13 492.69 | 13.28 | 16 874.15 |
| North America | 57.51 | 8 907.38 | 11.69 | 6 856.68 | 43.22 | 4 111.01 | 26.41 | 1 951.99 | 77.44 | 3 069.91 |
| Middle East & North America | 25.04 | 12 571.34 | 613.37 | 14 968.74 | 9.04 | 10 686.92 | 842.56 | 7 097.24 | 17.32 | 7 161.11 |
| Latin America & Caribbean | 4.49 | 43.22 | 2.44 | 32.49 | 0.46 | 113.72 | 2.56 | 9 985.66 | 1.08 | 30.88 |

Source: World Bank, World Integrated Trade Solution (WITS) database, 2019.

- The Business Regulatory Act controls business licensing and adherence requirements.

Government support for manufacturing sector

- Zambia has prioritized the manufacturing sector as a driver of its envisioned industrialization, economic diversification and growth, wealth generation and jobs creation, especially for youths and women.
- Through its National Industrial Policy (NIP), cotton, textile and apparel manufacturing has been identified as one of the subsectors to improve manufacturing sector growth from 5% to 20% p.a. and to improve manufacturing sector contribution to GDP from 8% to 15% by 2027.
- The NIP of 2018 seeks to transform Zambia “from a producer and exporter of primary products into a net exporter of value-added goods and products”.
- NIP is expected to stimulate and encourage textile and apparel manufacturing as a way of making use of locally produced cotton and cotton by-products and increase national export earnings, creating employment opportunities and ultimately transforming Zambia into a diversified and competitive industrialized economy.
- CTA also enjoys special tax incentives and pays the least corporate income tax (10%).

Figure 2: Zambia and South Africa ease of doing business comparisons



Source: World Bank Ease of Doing Business 2019.

Investment climate

- Stable and growing economy since the 1990s.
- Relative macroeconomic stability despite inflationary pressures and foreign exchange rate volatilities.
- Effects of drought on agriculture and energy are piling pressure on economic outlook.

Taxes and special incentives

- Businesses in Zambia must pay taxes. Main taxes payable include corporate income tax, personal income tax, withholding tax, value-added tax and property transfer tax.
- CTA, as part of exports of non-traditional products from agroprocessing, enjoy a special corporate tax of 10%.
- Zambia has double taxation relief agreements with several of its partner countries.

Logistics and connectivity

- Zambia is serviced by a 37,000 km road network (6,476 km bituminous standard) and a 2,922 km railway network (requires rehabilitation).
- Good telecommunication coverage with 91.6% and 58.4% cell phone and internet penetration respectively.
- Developed air transport with four international airports and several upcoming one-stop border facilities.

Workforce scenario

- High labour availability with 9,056,840 people of working age and only 3,398,294 (37.5%) employed.
- Unemployment remains high and is highest among youths (17% nationally, 19% in urban and 16% in rural areas).
- New investments in CTA are thus critical for youth and women employment in rural and urban areas.

Power scenario

- Easy access to electricity in all established multi-facility economic zones.
- Increasing droughts affect hydropower generation and supply. This has created a need for renewable energy.
- Competitive cost of electricity; tariffs recently adjusted towards cost-reflective rates.

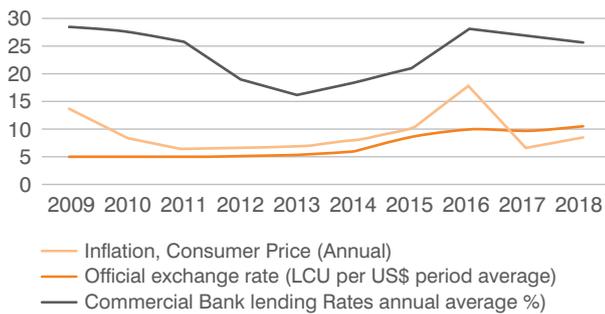
GETTING STARTED – A BRIEF GUIDE

- Investors start with the Zambia Development Agency (ZDA) and get all necessary guidelines and procedures.

² Furnishing articles, sacks and bags, and filament yarn, etc.

³ T-shirts, trousers, shirts and infant wear, etc.

Figure 3: Inflation, interest and exchange rate trends (2009–18)



Source: Bank of Zambia and Central Statistical Office, 2019.

- Business registration follows, starting with business name clearance and registration (takes 1–2 days).
- Tax registration with the Zambia Revenue Authority (ZRA) follows – done online at <https://www.zra.org.zm>.
- Bank accounts can then be opened.
- Investment premises/land acquisition is the next critical step.
- Investment registration with the ZDA for an investment licence follows.
- The ZDA certificate of registration allows investors to apply for investment incentives. A minimum of \$250,000 is needed to qualify for basic non-tax incentives and \$500,000 to qualify for special tax incentives.
- Application for immigration permits can then be done.
- Investors may also need to apply for other industry licences.

INVESTMENT OPPORTUNITIES

Zambia offers viable investment opportunities in cotton, textile and apparel. Increased cotton output, and ginning capacity, collapsed textiles and weak apparel companies have created business opportunities in:

▪ Toll ginning

Up to 240,000 tons p.a. spare ginning capacity could be used by prospective investors intending to produce self-financed cottonseed and have it processed into lint and other cotton by-products without investing in new ginning facilities. A good proportion of the spare ginning is owned by investors from China, a situation that gives Chinese investors better partnership prospects.

▪ Modern spinning mills

Lack of modern and competitive spinning mills is preventing Zambia from processing and adding value to its cotton lint. This has affected Zambia's capacity to produce and market yarn, a key textile input. This has also turned Zambia into a net yarn and fabric importer mainly from China and South Africa. Prior to the closure of its biggest integrated spinning and textile company in 2008, Zambia enjoyed a growing yarn exporting business. By 2005,

Zambia's yarn exports had increased to \$34.9 million from \$25.5 million in 2003 (World Bank, 2008). By 2017, textile (yarn and fabric) exports had reduced to \$3.4 million p.a. This situation has opened up this value chain segment to new investments in modern and competitive spinning mills needed to supply local and regional markets that depend on imported yarn. Ample raw materials availability (average of 48,000 tons p.a. lint) makes investments in spinning feasible. Capacity to more than double its lint output and availability due to spare ginning capacity makes investments in spinning even more viable. Zambia's preferential textile trade agreements with the USA (African Growth and Opportunity Act), the European Union, and East and Southern Africa markets also makes Zambia a better hub for cotton spinning investment to serve the COMESA member states that depend on imported yarn.

▪ Weaving and knitting

Closure of major weaving and knitting companies has led to high fabric imports, which make local apparel manufacturing less competitive. Demand for woven and knitted fabrics in Eastern and Southern African markets has also remained high and is serviced mainly by imports from China and other Asian countries. This situation has opened up this textile segment to new investments, with Zambia looking for up to 500 looms and 250 knitting machines investment capable of producing 50 million metres of woven fabrics and 25,000 tons of knitted fabric in the short- to medium-term. A high potential for locally sourced lint and yarn, good access to competitively priced electricity, easy access to land and water for industrial processing, and readily available skilled, experienced and fairly priced labour are some operative and cost advantages to exploit when establishing new fabric manufacturing businesses in Zambia. The ongoing Buy Zambian campaign will also help promote the uptake of locally produced fabrics.

▪ Apparel manufacturing

Apparel manufacturing is one of the most promising investment segments for FDI. Investment opportunities for Zambia's apparel manufacturing lie in producing industrial and institutional (protective wear, uniforms and bedding, etc.), most of which are imported. Clothing targeting the young and low-income market is another growing market segment, while niche ethnic/African apparel (chitenge) products for domestic and export markets is on the rebound. Zambia imports most of its institutional uniforms and other garments and the growing manufacturing industry base is also fuelling demand for industrial protective wear, which is being imported. In 2017, close to \$60 million worth of apparel was imported, out of which \$43.2 million was new apparel, against its \$0.12 million worth of exports, while approximately \$16.2 million was on second-hand clothes. These imports could be substituted with locally manufactured industrial and institutional apparel in line with the ongoing Buy Zambian campaign.

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