

AGRO PROCESSING SECTOR PROFILE

2014



Zambia Development Agency



Introduction

Agriculture in Zambia remains a major contributor to Zambia's economy contributing about 13% to the country's Gross Domestic Product (GDP). Agriculture is also a major employer in Zambia and currently employs about half the total workforce in Zambia. However agriculture alone is not enough to bring about meaningful development to the Zambia people, there is need for Zambia to diversify from primary agriculture into agro processing. Alternative or additional income generating opportunities are needed to support the millions of poor families who can no longer support their livelihoods from the land alone. Agro processing - turning primary agricultural products into other commodities for market - has the potential to provide those opportunities.

Currently the agro processing industry and the manufacturing industry contributes about 11% to Zambia's Gross Domestic product with increase investment it is hoped that the sector can contribute more to Zambia economic well being and bring about tangible benefits to the Zambian people such as employment creation and poverty alleviation.

Agro processing aims to increase income and access to food for the poor, by establishing small-scale, appropriate and sustainable processing businesses that are flexible, require little capital investment and can be carried out without the need for sophisticated or expensive equipment.

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

The Agro processing sector basically provides an opportunity for small scale producers to engage in small scale enterprises. However there are major constraints to the development and growth of agro industrial enterprises largely due to inadequate raw material supplies, limited access to appropriate technology, limited capacity to maintain existing technologies, failure by locally processed products to compete against imports, low viability of existing agro processing enterprises and limited access to credit.

Large part of agricultural production undergoes some degree of transformation between harvesting and final use. The industries that use agricultural, fishery and forest products as raw materials comprise a very varied group. They range from simple preservation (such as sun drying) and operations closely related to harvesting to the production, by modern, capital-intensive methods, of such articles as textiles, pulp and paper.

The agro processing sector in Zambia generally is one of the most important sectors that have experienced precedent growth in terms of production and export performance in the recent years. This has been closely attributed to huge investment inflows in the various value chains as well as enabling business environment coupled with stable economic performance of the local and global economy.

The specificity of agro-processing industry

Processing is only one link in a continuous chain between raw material production and final consumption. The specificity of agro-industry *vis-à-vis* other industrial subsectors lies largely in the biological nature of the raw material. The raw materials used by agro-industry are generally characterized by the seasonal nature and the variability of their production as well as by their perishability. These aspects put particular demands both on the organization of agro-industrial activities and on the agricultural base producing the inputs, thereby adding to the need for a close integration of raw material production and processing.

Crop and livestock production cannot be controlled with great accuracy and tends to vary sharply from year to year owing to the effects of weather and pests and diseases. It is possible to some extent to reduce these fluctuations through the better use of soil and water resources and control of pests and diseases. It is generally in the interest of the processing enterprise, which requires as regular a supply of raw material as possible, to ensure or promote implementation of these measures by producers.

Furthermore, for most crops production tends to be concentrated in a particular season. It can therefore be advantageous for processing enterprises, particularly those engaged in canning and freezing, to promote the production in a particular area of a suitable range of crops and varieties maturing in different seasons in order to keep processing facilities in operation for as long as possible. The perishable nature of many crop and livestock products also requires close contact between the producer and processor as well as advance planning to keep losses to a minimum.

Potential for agro-industry in Zambia (Developing Countries)

The potential for agro-industrial development in the developing countries is largely linked to the relative abundance of agricultural raw materials and low-cost labour in most of them. The most suitable industries in such conditions are indeed those that make relatively intensive use of these abundant raw materials and unskilled labour and relatively less intensive use of presumably scarce capital and skilled labour.

Many of the industries using agricultural raw materials have in fact those characteristics that make them particularly suitable for the circumstances of many developing countries. Where the

raw material represents a large proportion of total costs, its ready availability at a reasonable cost can often offset such disadvantages as a lack of infrastructure or skilled labour. Furthermore, for many agro-industries, a small plant may be economically efficient, which is another important factor in developing countries where the domestic market is limited by low purchasing power and sometimes by the small size of the market itself.

The factors actually determining the most economic location for an agro-industry are complex. Generally transport is a main factor. Most agricultural products either lose weight and bulk in processing, meaning they can be transported more cheaply after they have been processed, or they are perishable and so can be more easily transported in processed form. The situation is also affected by labour supplies and the availability of power and other infrastructure, but industries based on these products can often be set up economically in the area where the raw material is produced. They can therefore contribute to the relief of the rural underemployment which is characteristic of developing countries.

There are, however, exceptions. For most grains, shipment of the raw material in bulk is frequently easier, while many bakery products are highly perishable and thus require production to be located close to the market. Oilseeds (except for the more perishable ones such as olives and palm fruit) are also an exception and can be transported equally easily and cheaply in raw form or as oil, cake or meal, so there is more technical freedom of choice in the location of processing. The same is true for the later stages of processing of some commodities. For example, while raw cotton loses weight in ginning, which is consequently carried out in the producing area, yarn, textiles and clothing can all be transported equally easily and cheaply.

Potential for the Agro processing sector

**“Africa’s profitability is one of the best kept secrets
in today’s world economy.”**

Kofi Annan

Former UN Secretary-General

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.

The growth of the agro processing sector anywhere in the world can not be discussed in isolation rather should be seen as a direct consequence of the flourishing primary agriculture sector.

As such the sector has continued to receive priority attention by the government through increased budget support aimed at increasing agriculture productivity to ensure food security, income generation, creation of employment opportunities and poverty reduction.

In the early stages of growth, industrial processing of agricultural products tends to be limited to a few export crops, while the majority of agricultural products are consumed after minimal forms of processing that are performed entirely within the agricultural sector.

One key component of agro processing industries is that they are a major source of employment and income, thus providing access to food and other necessities to large groups of population.

Primary and agro processing industries typically employ more than 60 percent of the total labour force employed in Zambia.



In 2013, export earnings from primary agriculture totaled U\$577,482.38 from USD 736,528.82 in 2012 representing a decrease of 21.6% with SADC and COMESA countries being the major markets. Other markets include the European Union and Asia. However, primary agriculture contributed 16.27 % to the total Non-Traditional export earnings in 2013.

Below is a summary of the selected crop performance for the National Food Balance for Zambia for the 2012/2013 Agricultural Marketing Season Based on the 2011/2012 MAL/CSO Crop Forecasting Survey and MACO/Private Sector Utilization Estimates (Metric Tonnes)

Crop	Stocks (1st May 2012)	Production (2011/12)	Total Production (mt)
Maize	770,931	2,852,687	3,623,619
Paddy rice	7,058	45,321	52,378
Wheat	78,769	253,522	332,291
Sorghum & Millet	6,325	45,009	51,334
Sweet and Irish potatoes	0	195,551	195,551
Cassava flour	0	1,106,292	1,106,292
Total (maize equivalent)	861,553	4,278,722	5,140,275

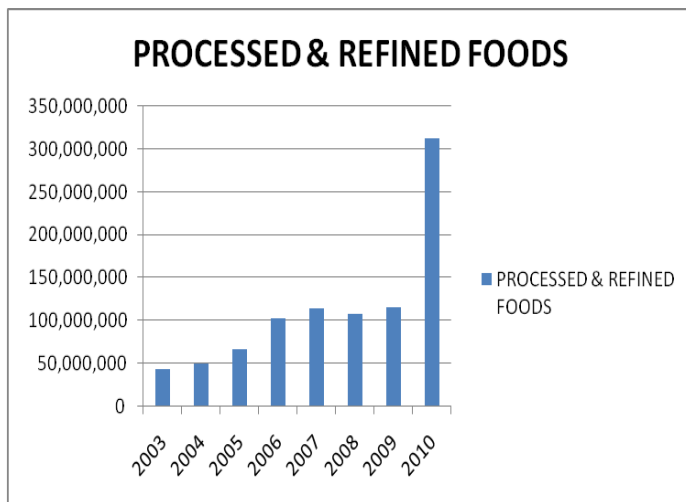
Source Ministry of Agriculture and Livestock

Primary agriculture contributes about 35 % to the country’s total Non-Traditional exports and about 10% of the total export earnings for the country. The main export crops under primary agriculture include sugar cane products, cotton, tea, sunflower, soya beans, rice, tobacco and maize.

Zambian Agro Processing Export Performance

The processed and refined foods sector has continued to be dominated by Zambia Sugar Plc which is the largest sugar producer in Zambia with an estimated market share of about 90 %. The recent successful major expansion of the company has seen the company increase its annual production from 200, 000 tons to 450,000 tons contributing to the increase in production and exports of sugar. In addition the company grows over 65 % of its own cane on over 16,550 ha, over which 2,500 ha was added as part of the group’s recent expansion. The rest of the cane is grown by out grower schemes such as the Magobbo, Manyoyo and Kaleya.

In 2013, the sector’s export earnings rose by 35.6% from US\$ 417,386.79 in 2012 to US\$ 565,807.81 in the year under review. The growth in the export trend has continued to be attributed to wider market access in both regional and international markets which have continued to benefit the country especially for sugar export.



The growing demand for agricultural products and consumer goods in sub-Saharan Africa together with the increasingly stable political climate in the countries in which we operate creates an exciting platform on which Zambeef can thrive.” Francis Grogan CEO of Zambeef products PLC.

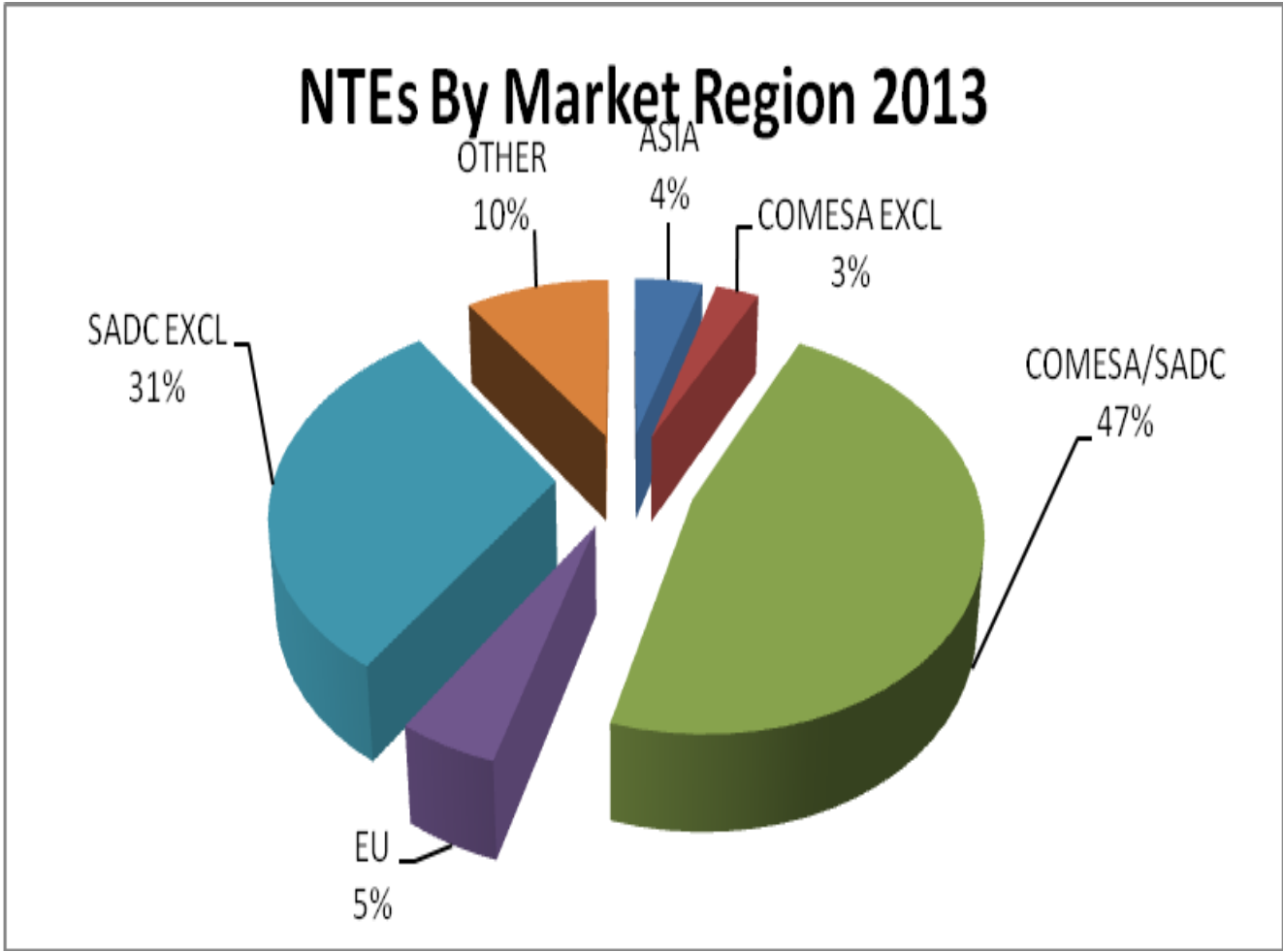
Markets for Zambia’s Non Traditional Exports

Regionally, the SADC market continued to be the country’s largest export market bloc. SADC alone accounted for 35.0% of the total NTEs. In Value terms, NTE exports to SADC amounted to US\$1,398.53 million an increase from US\$540.3 million recorded in 2011. South Africa accounted for 72%, followed by Tanzania with 8.8 % and Namibia with 8%. Other SADC

country markets include Botswana, Mozambique, Angola and Lesotho. Overall growth in the SADC region was 20% from the previous year.

NTEs exports to the COMESA region in 2013 amounted to US\$104.29 million a decrease from US\$ 154.29 million recorded in 2012. This represents 3% contribution to total NTEs. However, total exports to COMESA and SADC excluding South Africa amounted to US\$ 2,244.82 million representing 78.0% of total NTEs. Congo D.R was by far the largest market with export earnings of US\$719.50 million followed by Zimbabwe (US\$431.70 million), Malawi (US\$201.46 million), Namibia (US\$143.90 million) and Tanzania (US\$115.12 million).

NTEs by Market Region



SWAT Analysis of Agro Processing in Zambia

Strengths

- Alternate season production
- Labour availability
- Technology institutions / R&D facilities
- Potential for diverse production
- Presence of multi-nationals
- Sector-specific incentives

Weaknesses

- Lack of export infrastructure for perishables
- Transport inland / port charges / long distances
- Small domestic market
- Production volumes small
- Distances to global markets
- Skills (management)

Opportunities

- Changing demands / exports
- AGOA
- NEPAD
- Free Trade Agreements

Threats

- Subsidized production / exports in developed nations
- Environmental Issues
- Trade barriers / non-tariff barriers
- Market entry barriers for BEE / WE
- Increasing demand for transparency in supply chains

EXPORT PROCEDURES AND DOCUMENTATION

Zambia now has one of the most liberalised and simplified export procedures. Rules and regulations pertaining to the export of non-traditional exports are non-restrictive. Exports of grain such as maize are however sometimes subjected to seasonal regulation to forestall shortages. In some cases, exporters are required to secure authority documents or other necessary certificates for export of consignments such as veterinary items or botanical items and submit them to customs.

Export procedures are as follows:

Obtain the customs and Excise Document form 20 from the Zambia Revenue Authority (ZRA) and indicate on it the range and value of products meant for export.

- Get a stamped certificate of origin from the Zambia Revenue Authority for each of the markets you are about to export to, COMESA movement certificate and Generalized System of Preferences (GSP) certificate for countries within the trade arrangement.
- Obtain the quality certificate from veterinary Department before exporting meat and livestock out of Zambia.
- Acquire a phytosanitary certificate from Mount Makulu Research Station in Chilanga for agriculture products such as seeds, stems and fruits.
- Obtain an export permit for prohibited food products such as maize, maize meal and wheat (and at times Soya beans).
- Obtain an SPS certificate from the Ministry of Agriculture for poultry and meat products.
- Obtain the veterinary certificate from the veterinary Department before exporting live fish and live animals (including poultry)


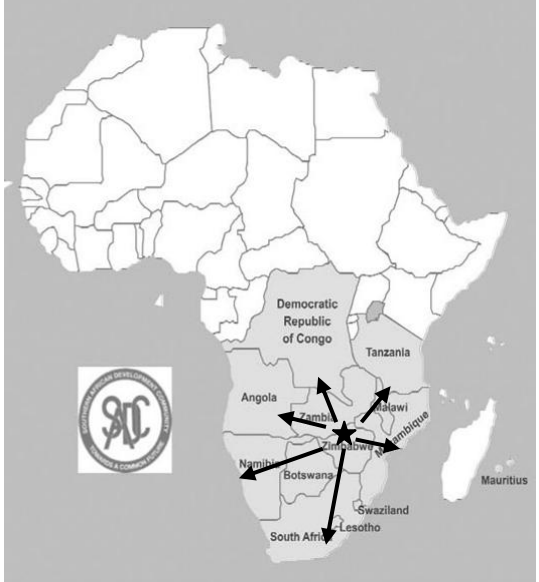
Why invest in the *Zambian Agro Processing Sector*?

1. Rich raw material base
2. *Zambian Favorable agricultural conditions*
3. Steady growth of the domestic market
4. Duty free access to wide markets
5. Competitive costs

Duty free access to wide markets

Zambia is privy to preferential market access to a number of key markets. As a member of the Common Market for East and Southern Africa (COMESA) the country is part of a Customs Union and in SADC a Free Trade Area. The country is also a beneficiary under the African Growth Opportunities Act (AGOA) and the EU Everything But Arms.

Given the current regional integration agenda under both COMESA and SADC, and in particular the tripartite FTA between the two blocs and the East African Economic Community (EAC), it can be anticipated that intra-regional trade will be enhanced both through intra-industry as well as inter-industry trade. According to the African Union, the three Regional Economic Communities have an estimated combined population representing 57% of Africa’s population 58% of its GDP.

COMESA: Common Market for Eastern and Southern Africa	SADC: Southern African Development Community
	
<p>Total Population: 580 million* Total GDP: US\$ 870 billion* * Including Zambia</p> <p>Access to <u>25</u> national markets:</p> <p>Angola, Botswana, Burundi, Comoros, Djibouti, DRC, Egypt, Eritrea, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Sudan, Swaziland, Tanzania, Uganda, and Zimbabwe.</p>	

Zambia also offers:

- Stable political system.
- Guarantees and security to investors with legislated rights to full and market value compensation.
- Progressive banking, legal and insurance services of international standards and stock exchange market.
- Good place to work and live – sub-tropical, but dry and cool climate with always sunshine, friendly people. Open-air lifestyle with nature reserves, game parks, rivers, lakes and waterfalls.

“We followed this Government’s framework and the terms were well known. It is the perfect route for private sector operators with innovative ideas”

Avishay Dvir, ZBCC CEO

USEFUL CONTACTS

NAME	ADDRESS	TELEPHONE	FAX	EMAIL
1. Zambia Development Agency (ZDA)	P.O. Box 30819, Lusaka	260-211-220177	260-211-293223	zda@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.co.zm www.mcti.gov.co.zm
3. Ministry of Agriculture and Livestock	P.O. Box 50291, Lusaka	260-211-257 663	260-211-255 346	www.agriculture.gov.zm
4. Patents and Companies Registration Agency (PACRA)	P.O. Box 32020, Lusaka	260-211-255127	260-211-255426	pacro@zamnet.zm www.pacro.org.zm

5. Zambia Revenue Authority(ZRA)	P.O. Box 35710, Lusaka	260-211-223754	260-211-222717	advice@zra.org.zm www.zra.org.zm
6. Environmental Council of Zambia (ECZ)	P.O. Box 35131, Lusaka	260-211-254130	260-211-254164	ecz@necz.org.zm www.necz.org.zm
7. Zambia Association of Chambers of Commerce and Industry (ZACCI)	P.O. Box 30844, Lusaka	260-211-252483 / 253020	260-211-253020	zam@zamnet.zm www.zam.org.zm
8. Zambia Association of Manufacturers (ZAM)	P.O. Box 31992, Lusaka	260-211-229364	260-211-229371	zam@zamnet.zm www.zam.org.zm
9. Zambia National Farmers Union	P.O. Box 30395, Lusaka	260-1-252649	260-1-252648	znfu@zamnet.zm