
Multi-facility Economic Zones in Zambia: Progress, Challenges and Possible Interventions

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I. Context

The Government of the Republic of Zambia (GoZ) introduced multi-facility economic zones (MFEZ) in 2005 in order to enhance Zambia's competitiveness and industrialization. The zones were initiated to foster an attractive business environment, promote exports, and enhance domestic trade. The enactment of the Zambia Development Act which mandated the creation of the Zambia Development Agency (ZDA) provides a master framework for the management of investment facilitation activities within the country. The Act also endorsed the development of MFEZs.

The Ministry of Commerce, Trade and Industry (MCTI) has designated several locations for the establishment of MFEZs (including the Lusaka South Multi Economic Zone (LS-MFEZ) which is being developed as a mixed use development) intended to promote manufacturing, exports, technology & knowledge transfer and job creation.

Another important objective of the MFEZs is to promote the development of Small and Medium Sized Enterprises (SMEs), especially through integrating SMEs in the value or supply chains of large enterprises (LEs) within the zones.

The MFEZs are established to overcome the binding constraints faced by the private sector, including land, infrastructure, business climate (such as inefficiency of the public services, cumbersome customs clearance and taxation systems, etc.)

II. The Existing Multi-facility Economic Zones (MFEZs)

Currently there are mainly three MFEZs in Zambia:

a) The Lusaka South Multi Economic Zone (LS-MFEZ)

The LS-MFEZ is a public sector led commercial project through which the GoZ is providing hard and soft infrastructures to support the development of the private sector. It is planned and established with a strong public sector participation involving ZESCO Limited, Zamtel, Lusaka Water and Sewerage Company (LWSC), Road Development Agency (RDA) and Industrial Development Corporation (IDC). The LS-MFEZ is the SPV established in June 2012 by the Ministry of Finance (MoF) to manage, operate and develop the zone. As of August 2015, IDC has taken over the shareholding in LSMFEZ Ltd on behalf of the MoF.

The LS-MFEZ is approximately 10 km from the Lusaka city center and 21 km from the Kenneth Kaunda International Airport. It has a total area of 2,100 hectares and has been planned to be developed in 5 phases beginning with Phase I in the North Eastern side of the zone where Chifwema access road has

been constructed. The zone is a mixed use development comprising industrial, commercial and residential developments.

The intended sectors for the zone include agribusiness, packaging and printing, palm oil processing, pulp and packaging boards, pharmaceuticals, electrical and electronic appliances, ICTs, education and skills training, R&D, professional, medical, scientific and measuring services, etc.

- b) Zambia-China Economic & Trade Cooperation Zone (ZCCZ) (also called The Lusaka East Multi-Facility Economic Zone)

ZCCZ is the first Multi-Facility Economic Zone (MFEZ) declared by the Government of Republican Zambia in 2007 according to ZDA Act. It is also the first Chinese overseas economic & trade cooperation zone established in Africa. The Lusaka East MFEZ has a planned area of 5.7 Km², is located 25 km north-east of the City, next to the Kenneth Kaunda International Airport. The phase I is about 1.6 km².

The zone is a multi-use facility and open for both foreign and Zambian firms. The intended sectors include agriculture (circular and tourism agricultures), agro-processing, brewery, pharmaceuticals, building materials, logistics (storage), international commerce, etc.

- c) Chambishi Multi facility Economic Zone (CMFEZ) – a sub-zone of ZCCZ

Chambishi MFEZ is a sub-zone of ZCCZ with the same developer – CNMC, which was opened in 2007. It is located in the city of Chambishi in the province of copperbelt, and about 308 km North from Lusaka. The size of the zone is 5.26 km².

The Chambishi MFEZ is also a multi-functional zone and open for both foreign and domestic investors. The priority sectors include mining, engineering equipment assembly, construction materials, fertilizers, agriculture, and service sectors such as banking and hospitals, etc.

III. The Management Structure and Beneficiaries

In Zambia, the regulator of the SEZ program is ZDA, and the zones are managed and developed by development corporations. The Lusaka South Multi Economic Zone (LS-MFEZ) is managed and developed by the Lusaka South Multi-facility Economic Zone Ltd, a government share-holding company of IDC. The ZCCZ and CMFEZ are managed and developed by the ZCCZ Development Ltd, a share-holding company by CNMC, a Chinese state-owned company. It's not clear if the zones have set up a clear M&E framework, though they all keep tracking their progresses at least annually.

The main beneficiaries of the zone programs are local people (both skilled and unskilled or semi-skilled), government at different levels, international firms and local firms. Local households and communities also benefit from the increased incomes through working within the zones or enhanced local business opportunities.

IV. Progress of the Zones

All three zones have so far made sizable progress in terms of zone construction, infrastructure development, investment generation and employment creation.

a) The Lusaka South Multi Economic Zone (LS-MFEZ)

The phase I and part of phase II are under development. By the end of 2015, 20 km of roads, water reservoirs, water distribution network, sewer network and one mechanical sewer treatment plant in Phase I of the zone have been completed. The phase I of a power substation of 330/132/33 KV and a 330 KV power line in the zone will be completed by April 2016, which can provide 150 MW power for the zone. The national grid line is next to the zone premises. The construction of the LS MFEZ Ltd office complex was completed in 2014 and is already in use. A dry port will be built through a PPP approach, and so far 3 contenders are received and are under review.

The zone has approved 22 investment projects, out of which 12 have signed leasing agreements. The ratio of the foreign and local firms is 50:50. These firms are mostly in agro-processing, pharmaceutical, motor assembly, plastics, beverages and service sectors (such as education, retail and finance). Two firms (NRB Pharma Zambia Ltd and Zambian Breweries Plc) have completed their factory and facilities and are in the testing stage. Three more have started or are ready to start the construction soon. These firms have generated over US300 millions (including committed) in total. According to the Managing Director, close to 1000 jobs (including the construction workers) are generated right now.

b) Zambia-China Economic & Trade Cooperation Zone (ZCCZ)

The ZCCZ has almost completed the phase I, including over 10 km main roads, a 10KV power substation, underground drilling work, a dozens of standard workshops including two types: 1550 m² (with office) and 1080 m², 6 residential buildings, and other urban amenities.

The zone so far has approved 14 investment projects and 7-8 are operational. The firms are in agro-processing, pharmaceutical, beverages, new energy and logistics, etc. About US20 million worth of investments have been committed, and over 207 local jobs have been generated.

c) Chambishi Multi facility Economic Zone (CMFEZ)

The CMFEZ has made substantial progress over the years. So far over 14km main roads have been tarred and linked up, and a 330KV substation, 66KV and 10KV transmission lines, water supply with bore hole, rainwater drainage, sewage and drainage have been completed. Internet access is also available, and a multifunctional facility of 5000 m², with offices, meeting room, exhibition hall, internet and financial banking services is operational. A dozens of standard workshops including two types: 1550 m² (with office) and 1080 m² are completed. The zone also has a SinoZam Friendship Hospital, which offers comprehensive medical service to the zone staff and local citizens. The hospital has experienced doctors and quality medical facilities, such as MRI and Laparoscopy System, etc.

The CMFEZ has 48 firms operational, generating an accumulated investments of US1.3 billion, and about 8,211 jobs. The investors are mostly from the mining, copper smelt, equipment assembling, construction, agro processing, and services (commerce, health and banking, etc.).

V. The Key Challenges

Based on the interviews with the zone developers, investors and government officials, the following are the main challenges in implementing the zone programs.

1) The weak institutional capacity and inefficient services of the public sector

The Zambia Development Agency (ZDA) under the Ministry of Commerce, Trade and Industry (MCTI) is the main government entity responsible for the MFEZ program. Given the lack of expertise and experience of most officials in the agency in terms of SEZ development, they cannot provide the right incentives and efficient services that are demanded by the private sector.

Three issues stand out:

- Lack of overall understanding of the market demand and industrial positioning of Zambia with regards to the global value chain. Although these zones have done some kind of feasibility studies at different degrees, the demand side assessment and benchmarking analyses are missing or quite weak. For LS-MFEZ, the government has commissioned Kulim Industrial Park Co. (a Malaysia firm) to do a master planning in 2010, financed by JICA. This study lacks many key elements, such as the detailed sectoral analysis, production costs comparison between Zambia and its potential competitors, the comparative advantages of Zambia, the assessment of the recent investment trends and projections by sectors. Thus, it's hard to have a clear understanding of Zambia's competitive position, although the reality shows that the demand for the zones are real and increasing.
- Malfunctioning One-Stop-Shop service. Currently Zambia doesn't have a real automated one-stop-shop service center and the whole process has to go through many agencies to get the necessary license, permits and paperwork done. The whole duration could take 3-6 months. This inevitably increases the transaction costs for investors. Meanwhile, the OSS requires high-level coordination of different agencies involved in the SEZ program, but it's questionable if ZDA under MCTI has the convening power to mobilize the resources from different ministries/agencies.
- Another is the investment incentives. Both investors within the zones and local SMEs complain that the taxation policies are not stable and susceptible to change without proper consultations with the private sector. For example, in terms of the VAT, starting from Feb 2015, the government requires all the exporting firms to provide the proof of export in order to claim the VAT tax. The proof includes copies of export documents bearing a certificate from the Zambian Authority, copies of import certificate from the export destination countries or transit certificate from the country of transit, tax invoice for the goods exported, and proof that payments for the goods have been credited into the exporter's account in Zambia. To submit all these documents/certificates is almost impossible for most firms, especially SMEs. According to the Zambia Export Growers Association, many SMEs are severely impacted, and even have to close down due to this policy. For zone investors, the income tax was originally exempted for 5 years starting from the year they begin to make profit, but now it is changed to the year of operation. This also adversely affect the investors.

2) Inadequate infrastructures

Although all the zones more or less face different constraints in terms of the hard infrastructures, it seems to be most severe for the Zambia-China Economic & Trade Cooperation Zone (ZCCZ). The zone developer is responsible for all the on-site infrastructures. When it was started, the government had promised to build the off-site infrastructures, such as the power and water lines up

to the zone parameters, however, this was never realized. They even had to build the access road from the zone to the airport road on their own and pay the government the permit fee and poverty tax. Due to the power shortage, ZCCZ has rejected over 10 potential investors. This seriously affected the zone's ability to grow. The other zones also face difficulties in terms of water, power, and roads, etc., but seem to be less severe than the ZCCZ (Lusaka).

3) Weak linkages between the zones and local firms

Many firms in the zones show interests in sourcing locally, especially those in agribusiness, which will help them to reduce the logistics and transaction costs. However, they also feel most local SMEs cannot meet their requirements in terms of stable volume, quality and standards, etc. This involves many local products, such as barley, cassava, mushroom, fruits and livestock, etc. If local firms' productivity, quality and standards can be improved, it will greatly help with the zone-local firm linkages. In addition, some investors in the zones also feel it's difficult to find suitable labors from the local market.

VI. Possible Interventions to Support the MFEZs

Given the above-mentioned challenges faced by the SEZ programs in Zambia, the following interventions could be provided to alleviate these constraints:

- 1) Institutional and capacity building. This will include two broad areas:
 - a. Skills training and knowledge sharing for the key government stakeholders of the SEZ program, such as MCTI (especially ZDA), Cabinet Office, MoF, IDC, Customs, ZRA, Utilities, Labor, Immigration, etc. The formality could include workshops, structured training, study tours, etc. The topics can cover various aspects of the zone management and operations.
 - b. Investment promotion assistance. This will involve 3 elements which are all important for investment promotion:
 - i. Assistance in strengthening the one-stop-shop (OSS) service. It's possible to remap the structure of ZDA to enhance its capacity and convening power. Support for skills training and system automation can be also provided to make the current investment service center a true OSS.
 - ii. Improvement of the incentive regime. A benchmarking assessment can be conducted to examine the incentive policies to ensure their consistencies and fairness against international good practices.
 - iii. Market demand assessment and competitive positioning of Zambia. This will help the government (especially ZDA) to have a better understanding of the market position of Zambia and properly define its comparative advantages in relation to other peer countries, thus, to come up with a strong value proposition for investment promotion.
- 2) Infrastructure support. The foremost constraint is the power shortage. One of the key objectives of the zones is to help overcome the overall poor business environment in the country, including the energy problem. Therefore, to provide adequate infrastructure is crucial for the success of

the zones. While the Chambishi and Lusaka South MFEZs seem to be in a better situation, the Lusaka East is suffering severely from the power problem, and has to turn down many potential investors. Beyond the power issues, other infrastructures such as roads, water, sewerage, and transport logistics are also in a great need. Various PPP (public-private partnership) options could be explored to address these issues.

- 3) Support for the SEZ-local economy linkages. To maximize the spillover effects of the MFEZs in terms of employment generation, skills and knowledge transfer, as well as growth opportunities of local firms, it's important that the project devote some resources to support the zone-local economy linkages. This could be an effective means of SMEs support. This intervention can also include two areas:
 - a. Skills training for local workers (including potential workers to be employed in the zones) in the non-technical areas, such as basic business, professional, and work ethics, etc., depending on the needs of the investors within the zones. In some highly demanded sectors, such as agribusiness, some basic technical trainings can be added as well. The intervention can focus on needs assessment, curriculum development and training of trainers.
 - b. Skills training for local SMEs (both managers and technical workers), starting with a few sectors that have the strongest connections (e.g., the agribusiness) with the zone investors. The training for managers will focus on business, management, marketing, as well as quality control skills, and for technical workers, the training will be more technical. The skills training center could be placed within the LS-MFEZ. This activity can be done in partnership with the Zambia Chamber of Commerce and Industry (ZACCI) and sectoral associations, such as the Zambia National Farmers Union (ZNFU) or the Zambia Exports Growers Association (ZEGA).

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