

## **Summary Report of the Official Launch of the Study Report**

### **Investment Policy in Zambia: Performance and Perceptions Lusaka, 14 September, 2004**

#### **Introduction**

This is a summary of proceedings of the launch workshop of the study reports titled “Investment Policy in Zambia: Performance and Perceptions” and “Investment Policy in Zambia: An Agenda for Action”. The workshop was organized by the Consumer Unity and Trust Society-Africa Resource Centre (CUTS-ARC) on the 14<sup>th</sup> of September 2004 at Lusaka. There were 56 participants, drawn from academia, the media, business community and inter-governmental agencies.

#### **Session I: Official Opening and Launch of Reports**

**Chairman: Mr. Chibembe Nyalugwe, Zambia Trade and Investment Enhancement**

**Guest of Honour: Mr. Davidson Chilipamushi, Ministry of Commerce, Trade and Industry**

**Speaker: Prof. Oliver Saasa, University of Zambia**

**Facilitator: Mr. Sajeev Nair, Consumer Unity & Trust Society- Africa Resource Centre**

At the outset, Mr. Sajeev Nair of CUTS welcomed the distinguished guests and introduced the background and context of the seven country study on investment. He also thanked the Department for International Development (DFID) of the United Kingdom and the United Nations Conference on Trade and Development (UNCTAD) for their support for the study.

Introducing the topics for the discussion, the Chair person Mr. Chibembe Nyalugwe observed that right environment for investment is a key factor contributing economic development. Research and stakeholder consultation plays a major role in devising appropriate investment and development strategies.

The Permanent Secretary (PS) in the Ministry of Commerce, Trade and Industry (MCTI), Davidson Chilipamushi released the reports and officially opened the workshop. He observed that Zambia has not taken advantage of the investment opportunities available to the country through coherent actions as is evident from lack of an investment policy. In the absence of the policy, decisions were made in vacuum and many of them were consistent. The Permanent Secretary observed that Zambia’s approach to investment problems has been too simplistic, but expressed optimism that the launch of these study reports would help unlock some of the difficulties that Zambia has been facing in promoting investment.

Mr. Chilipamushi pointed out that not everything the government has done in the investment field has been flawless, thus there is a need for concerted efforts from all the stakeholders especially the private sector observing that “as long as we leave everything to government we will not achieve anything”. He cited many opportunities that Zambia has failed to utilize despite its strategic location and political stability. For instance, the zero tariff in the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area (FTA) and the Africa Growth and Opportunities Act (AGOA) as some of the opportunities the country has failed to harness. The country has natural trading partners in the Democratic Republic of Congo (DRC) and Angola where there is a lot of effective demand but goods are scarce. Strangely, Zambia has failed to react to these opportunities. For example only US \$40, 000 worth of goods have directly been exported under AGOA. This shows glaring faults in the supply side situation. To correct this, incentives alone are not enough. Therefore, the Ministry of Trade and Industry initiated a programme called Private Sector Development Programme (PSDP) to define what is really meant

by 'private sector development' and 'enabling environment'. The Programme also aims at addressing some of the difficulties investors face such as the high cost of doing business in Zambia, making the micro economic environment right, tackling corruption, etc.

There were problems with liberalization programme of Zambia as privatisation of parastatals failed to unlock the domestic private sector. Even after liberalization the economy's growth has been slow over the past decade. The PS expressed concern over the sluggish growth of domestic capital formation stating that even if the general population itself does not postpone spending, very little is saved. And even when some of the income is saved, hardly any wealth is generated from it. Government too has not been spared from the low levels of savings. Zambia's annual budget is a consumption budget and not an investment one. Thus, the only resources the country would call investment is in the form of grants and aid. But as always there is no such thing as 'free money' and aid is conditional.

He further noted that even if the popular call for complete debt cancellation was finally dealt with, the country does not have an agenda to sustain the economy. It would soon slid back into debt. He added that Zambia is one among the least developed countries (LDCs) despite being endowed with abundant natural resources.

### **Zambia's Investment Policy: Oliver Saasa**

Speaking on the theme "Zambia's Investment Policy", Professor Saasa argued that Zambia has had poor Foreign Direct Investment (FDI) inflow despite "correct" macro-economic policy fundamentals.

The negative aspects of investment in Zambia include:

- Lack of legal distinction between domestic and foreign investors in Zambia.
- No special rights of entry and establishment for foreign investors

While the positives include:

- Investment may be expropriated only by an act of parliament
- Incentives for investing in the Export processing zones (e.g. tax and duty) exemption.
- Corporate tax has been low
- Zambia Investment Centre (ZIC) processes investment applications and is also involved in marketing investment opportunities.

While considering these realities, Prof. Saasa pointed out that Zambia can only realize the benefits if enterprises acted under the 'spur' of competition so that consumer preferences are reflected in market responses. He also called for a certain degree of balanced level of industrial protection, ironing out corruption, increase in economic diversification, address hidden costs of doing business, developing a good capital market and addressing the supply side in skills training and ensuring a stable political landscape. Saasa recommended that:

- Government should focus on supply factors, such as skills, education, technology and infrastructure development.
- Ensure development of financial institutions, capital markets and effective competition policy.
- Enhanced communication and transport links.
- Liberal repatriation of profits and other earnings but maintaining restrictions on capital accounts (managed liberalization)

## **Session II**

**Chairman: Mr. Chibembe Nyalugwe, Zambia Trade and Investment Enhancement  
Presentations: Mr. Chris Sealy, Private Sector Development Programme  
Mr. Abel Chola Mwitwa, Zambia Investment Centre**

### **The psychological Environment for Investment: Chris Sealy**

Reflecting the private sector view on investment policy in Zambia, Chris Sealy of the Private Sector Development Programme (PSDP) lamented:

- Investment decisions of individuals are not entirely rational and based on purely economic considerations.
- Investment decisions are inherently risky and therefore involve emotions.

He argued that if his hypotheses were correct then improving the psychological environment is crucial for enhancing investment in Zambia. He suggested that key institutions such as the investment centre, immigration department, relevant ministries, hospitality sector, etc. would have to spend time, money and make a deliberate effort to improve the emotional and psychological environment of potential and existing investors.

### **Investment Policy-A Ground Reality: A. C. Mwitwa**

Thus it was appropriate that the Zambia Investment Centre (ZIC) representative A.C. Mwitwa highlighted what he called the “ground reality”. He turned the spotlight on the fact that investment pledges have reduced drastically over the years. Factors such as corruption, long procedures, and high costs of doing business among others were the causes of reduced investment pledges in the country. He further pointed out that ever since the Centre was established, there has been no policy on investment to guide. The Centre is governed by an Investment Act, which he said was inadequate to address all the problems and was undergoing a structural review. He however argued that calls by some sectors of society to have a ‘one stop shop’ to address the current problems on investment were not only ambiguous but also unworkable as it is impossible to compress the different units of government responsible for investment facilitation under single roof as each unit has a specific mandate enshrined under specific acts of parliament.

### **Discussions**

During discussion, participants highlighted that the cost of doing business in Zambia was too high and that companies charge exorbitant rates for services. A participant cited the example of the tourism sector where standard hotel accommodation costs are well above \$300 a night in the tourist sites of Zambia. The road infrastructure is in a deplorable condition and the only other alternative way to access remote game management and resort sites is by another expensive route-by plane. It was suggested that in comparative terms with other countries in the region, Zambia is expensive for tourists. It was also brought to light that outdated immigration laws and long procedures in acquiring investment licenses are working against attracting FDI to Zambia. For instance, Zambia has a policy of re-entry visa even for investors and established residents which are valid only for three months when developed countries provide multiple entry visas which is valid for ten years.

In citing the high cost of doing business a participant gave an example of cost of production of sugar in Zambia which is twice as much as in India. It was pointed out that with this situation Zambia may find it difficult to compete on the international arena with low cost producing developing countries.

Another key issue brought before the meeting was the weaknesses at the implementation of right policies and programmes. It was argued that what was missing in Zambia was not the knowledge or lack of information but the poor implementation.

However, another participant wondered whether Zambia is endowed with qualified manpower to handle the privatization process itself especially considering that the performance of the privatized companies has been suboptimal. It was argued that Zambia undertook privatization with great speed and it was even commented by the World Bank. However it was argued that 'whether to celebrate or not when we heard from the World Bank that Zambia was the fastest privatizing economy' of Africa during the late 1990s.

Another interesting point brought out by a participant was a case against rushing into creation of new investment facilitation bodies instead of improving upon the already existing institutions. It was pointed out that experiences from some countries suggest that formation of new bodies tended to slow down progress.

### **Session III**

**Chair: Professor V. Seshamani, University of Zambia**

**Presentations: Mr. James Chansa, CUTS-Africa Resource Centre**

**: Mr. Kasote Singogo, Civil Society for Poverty Reduction**

**: Mr. George K. Lipimile, Zambia Competition Commission**

### **Investment Policy in Zambia: An Agenda for Action: James Chansa**

The session started with a presentation of the findings of the Zambia country study on investment by Chansa of CUTS-ARC. He briefly presented the methodology used, the involvement of the National Reference Groups (NRGs), the Civil Society consultation and the extensive literature survey carried out under the project. He summarized the sentiments captured in the survey and the NRG meeting, that successful privatization does not lie in the speed of the privatization process. He said the FDI that was attracted to Zambia was literally resource seeking. "Most of the FDI to Zambia came from transnational corporations seeking competitiveness, profitability and new markets. While the country received the most FDI in 1997, later times have taken a more downward trend and the situation is worrying" he said. The presenter then put forward an agenda for action by all stakeholders including government, inter-governmental organizations, and civil society in improving the investment climate of the country.

For instance, priority for government included suggestions to improve governance, reduce corruption, introduce effective export processing zones (EPZs), introduce a 'one stop investment shop' facility, invest in skill education and health, market the country's investment potential and coordinate with other regional and global countries in attracting investment to the country. This is apart from creating an enabling and politically stable environment for private sector driven growth by introducing an investment policy.

### **Investment and Regulation: George K. Lipimile**

Speaking on the theme 'Investment and Regulation' the executive director of the Zambia Competition Commission (ZCC) George Lipimile pointed out the difficulties of regulating multinational companies that took over most of the privatized firms in Zambia. He said Chilanga cement was taken over by the biggest international cement producing company- Lafarge; Zambia Sugar Company was taken over by Ilovo and the Coca Cola takeover of Cadbury Schweppes, etc. are examples. This was simply a shift of ownership from public monopolies to private monopolies. He also noted the reduced Greenfield investment in Zambia and other developing countries over the years and the risk of smaller, local firms being taken over by foreign firms. If this situation persists, he said, a market foreclosure will ensure.

## **The Link between investment policy and National Development Strategy: Kasote Singogo**

As the last presenter of the workshop, Kasote Singogo eloquently stressed 'the link between investment Policy and National Development Strategy'. He also argued that a national investment policy is vital for consistency and coherence in national development strategy related decision making. He depicted Zambia's position in Africa in terms of attracting investment. Removing the negative image of the country, in a bid to improve competitiveness is part of the universal strategy of investment promotion. Zambia needs to bring in the concept of competitiveness and decentralization while formulating investment strategies. For example, each province in Zambia should compete for the available investment; each district council should also make itself competitive. The presenter also talked about the need to mobilize natural links such as those naturally occurring between Zambia and Malawi, Zambia and Democratic Republic of Congo. At government level, the various investment related ministries including the Trade, Commerce and Industry, Finance and National Planning should synergise their activities and policies.

Mr. Singogo also proposed to encourage the 'open skies' approach, where Zambia acts as a regional centre for passenger and cargo transportation to key cities of Africa and the world. This will help Zambia to become a commercial and financial centre of the region. This, he said, will mean Zambia will no longer consider its landlocked position as a disadvantage.

### **Discussion:**

Participants stressed the need to restrict promotion of 'warehouse' investment in Zambia whereby Zambia is used mainly as a market for finished products and not a base for production. Another submission suggested that it was time to embrace the concept of attracting small and medium scale viable investment instead of large projects that are very rare that the country could boast of being undertaken. Participants also agreed on the need to increase value addition at every stage of production. For instance crops such as cotton should be processed instead of the current scenario where commodities were being exported in their unprocessed form.

### **Conclusion and way forward**

The workshop ended with a call for structural changes in the investment promotion and regulation beginning with a mindset-adjustment of 'can do' instead of 'can't do'. In closing the workshop CUTS representative outlined the suggested way forward: feeding the submissions and views thus gathered into the formulation of the national investment policy by the government. CUTS representative also suggested that Government could consider constituting a National Advisory and Consultative Council on Investment. This can be a regular forum where important investment and regulatory matters can be discussed among the stakeholders periodically. It was proposed that there is need to form strong partnerships among business, government, civil society and inter-governmental organizations in order to enhance investment and economic development in Zambia.

### **List of Participants**

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